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SLOVAKIA
Nationalists look for an identity
Page 2

World News

Yeltsin plan to strengthen presidential powers

Russian president Boris Yeltsin has unveiled plans to greatly strengthen his power – including the appointment of "governor generals" in the republics and regions of Russia, who would enforce presidential and government decisions. The first of these presidential plenipotentiaries are to be named this week.

Yeltsin's plan downgrades the Russian government and is a direct challenge to the *leaderships of* the *16 autonomous* republics – especially to that of Tatarstan, which has an elected president in Mr Minimer Shaimiev and which claims independence. Page 14; Party's criticism of Gorbachev increases, Page 2

Seoul seeks summit

The Seoul government said it wants a Korean summit meeting and that it will pursue *this goal when the prime ministers* of North and South Korea meet this month. Page 3

Albanian ports sealed

Albanian defence minister Perlki Teta told an emergency cabinet meeting that all the country's ports were under military control. In Italy, several thousand Albanians, who hijacked ships are refusing to be repatriated. Page 2

Unesco officer killed

The acting director of a UNESCO regional office in Amman was shot and killed by a driver for the agency.

Promise to Vietnam

Vietnam's prime minister Vo Van Kiet has vowed to forge "a genuine government of the people" while fighting corruption and bureaucracy. Page 3

Soviets in Afghan talks

A senior Soviet envoy opened talks with Pakistani officials aimed at promoting a political settlement to the 13-year *Afghan civil war. Page 2*

Anger in Madagascar

The opposition in Madagascar, angry at the deaths of 11 demonstrators on Saturday in a clash with government troops, said it was stepping up its campaign into "open war" on President Didier Ratsiraka. Page 3

China executes 15

A public trial attended some 10,000 people in the southern Chinese city of Kunming ended in death sentences for 13 criminals who were immediately taken out and shot. In neighbouring Sichuan, two other *criminals* were *similarly* sentenced and executed.

Space shuttle lands

Space shuttle Atlantis landed near its launch pad at the Kennedy Space Centre, after a "picture-perfect" nine-day space mission.

S Africa war threat

The head of the pro-apartheid Afrikaner Weerstandsbeweging *said the government could no* longer guarantee national security and vowed conflict with both the white authorities and the African National Congress. Bloody night of white on white. Page 3

Helicopter crew killed

Three Norwegians aboard a maintenance work helicopter work died after it crashed on the Statpipe platform in the North Sea *Ekofisk oil field.*

Yugoslav prisoner swop

The Yugoslav republics of Croatia and Serbia, embroiled in an unofficial civil war since June 25, agreed at the weekend to exchange prisoners. Page 2

West Indies dig in

The West Indies reached 356 for six wickets when rain stopped play on the fourth day of the fifth cricket *test in London*. In the first innings England scored 419 and the West Indies 176.

Business Summary

More unified approach to regulating banks urged

A more systematic approach needs to be taken by governments towards regulating the activities of banks when they operate across national boundaries, according to a study by the Group of Thirty, a Washington-based think-tank.

Written before the Bank of Credit and Commerce crisis, the study pinpoints the difficulty of supervising banks with branches in many countries – the problem which *enabled BCCI to evade* close supervision. Page 14; Rumour keeps protestors' cause alive; Page 14; BCCI shutdown, Page 6; Editorial comment, Page 12

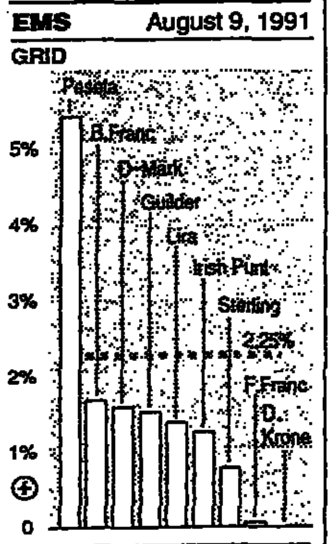
UK RECESSION: The depth of the recession is underlined by a string of industrial surveys and private *forecasts*, all of which see no immediate end to the economic gloom. Page 14; Further construction job losses ahead, Page 8

STOCKBROKERS James Capel denounce the method of awarding new commercial television licences in the UK as "possibly the most ludicrous in corporate history," arguing that both the existing ITV companies and greenfield bidders have been players in a farcical "highest bidder" contest for Channel 3 licences to run from *1993 to the year 2002. Page 15*

ORBICOM, Anglo-Soviet trading company based in Shrewsbury, Shropshire, has been granted what it claims are the first concessions to a western company for the exploitation of gas in the Yamal Peninsula, western Siberia. Page 2

EUROPEAN Monetary System: The Italian lira weakened a little in the exchange rate mechanism last week, finishing below the Belgian franc, D-Mark and Dutch guilder. The Belgian and Dutch currencies maintain a closer link to the D-Mark than *others* in the system, *and have gained from* speculation that higher German interest rates will be announced at this week's Bundesbank council meeting. The top placed Spanish peseta stayed comfortably within its ceiling against the Danish Krone, the weakest member.

EMS GRID August 9, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

BT: The British government plans to set aside more than half of the second tranche of BT shares to be floated in November for the UK retail market. Page 15

CONRAD BLACK, Conrad Black, Canadian chairman of the Daily Telegraph, has withdrawn, at least for the present, from the planned sale of the UK's Birmingham Post and Mail group. Page 15

Freeing of other western hostages linked to fate of Shia prisoners

Releases put pressure on Israel

By Victor Mallet in Jerusalem, **Nancy Dunne** in Washington and **Roger Matthews** in London

THE RELEASE of the 10 western hostages still in Lebanon rests on efforts to resolve the fate of up to 400 Lebanese Shia Moslems held by Israel, political leaders in the west and Middle East indicated yesterday.

Their comments came after the freeing of Mr Edward Tracy, *a 60-year-old American* who had been held for nearly five years, and Mr Jerome Leyraud, a French aid worker who was seized on Thursday in Beirut.

The demand for the release of the Lebanese *Shias* is believed to be the main issue in the letter from the extremist Islamic Jihad group which Mr Javier Pérez de Cuéllar, United Nations secretary-general, was handed yesterday by Mr John McCarthy, the British hostage freed on Thursday.

Mr Pérez de Cuéllar said later in Geneva that it did not contain "very precise details" of a possible deal but "gave me a kind of power to continue my efforts".

President George Bush praised Iran and Syria yesterday for their help in winning freedom for Mr Tracy and said *all countries holding hostages* should release them. "People who are not held under procedures of law ought to be released," he said.

Asked specifically about Israel, Mr Bush responded: "I'm saying that everybody that's held as a hostage should be released by every country, whichever it is . . . We call upon the governments with influence on this issue to build on this positive move and work for the release of all hostages, regardless of their nationality".

Edward Tracy: freed

Syria has in the past year demonstrated a new willingness to co-operate with the US, first by sending troops to fight with the multinational force against Iraq, and then by accepting Mr Bush's invitation to attend a Middle East peace conference.

Iran, while worried about growing US power in the Middle East, is anxious to be included in discussions on new security arrangements in the Gulf, and needs western help *to rebuild its economy shattered* after its war with Iraq.

After the release of Mr Tracy, Israel appealed to Iran and Syria to divulge any available information about seven Israeli soldiers captured or missing in Lebanon in the nine years since the 1982 Israeli invasion.

"This will enable negotiations for the release of all the hostages including captured and missing Israeli soldiers," the Israeli defence ministry said. "In the framework of these negotiations, Israel will be ready to make its contribution and to free Lebanese prisoners it holds."

Mr Tracy arrived in Damascus, the Syrian capital, after being freed in Beirut by the Revolutionary Justice Organisation (RJO) and later left for a US military hospital in Germany. *"I'm surprised the world* is still here," Mr Tracy, 60, joked with Syrian television. "I'm in perfect health and ready to go outside and do the 100-yard dash," he added.

Mr Leyraud had been found earlier by police in southern Beirut, bound and blindfolded. He had been pushed out of a car but was unhurt and said he had been well treated.

Continued on Page 14

News and analysis, Page 4
Editorial Comment, Page 12

John McCarthy fulfils role as envoy to UN

By Tim Lawrence in Lyneham, southern England

MR Javier Pérez de Cuéllar, UN Secretary-General, took delivery yesterday of a letter handed to him by Mr John McCarthy, the British journalist released from Beirut last Thursday after more than five years as a hostage.

The letter from Islamic Jihad, Mr McCarthy's former captors, *is believed to contain* the conditions laid down by Hezbollah, the pro-Iranian Islamic group, for the release of more western hostages. One of the key demands is almost certain to be Israel's agreement to release up to 400 Lebanese Shias held either in Israel or in the security zone policed by the South Lebanon Army.

After a 35-minute meeting *with Mr McCarthy* at an air force base at Lyneham in southern England, Mr Pérez de Cuéllar said he needed time to have the letter translated and then to consider the contents. The letter, six pages long, was typed in Arabic.

Mr Pérez de Cuéllar said he was encouraged by the release of Mr McCarthy and the US and French hostages, Mr Edward Tracy and Mr Jerome Leyraud.

He said he would do "whatever is necessary" to secure the release of all hostages and end the "humanitarian problem."

Mr McCarthy, looking relaxed but tired, said he was optimistic that the remaining hostages in the Lebanon would be released. Asked if he had a message for them, he said:

John McCarthy and Mr Pérez de Cuéllar embrace, as UK Foreign Office minister Douglas Hogg looks on

"Keep the faith. It is my belief that the kidnappers do want an end to this situation and with the good offices of the secretary-general and everybody else, it will come to an end."

Mr McCarthy stressed that the delivery of the letter to Mr Pérez de Cuéllar was a very important part of his mission.

"The kidnappers expressed their total confidence that the secretary-general was the man who could work in the interests of humanity to ensure the release of all the hostages in Lebanon and the other prisoners in the region."

Mr Douglas Hogg, the British Foreign Office minister, said the release of the two hostages earlier in the day was "extremely important." But he added: "One has to be conscious of the obstacles that still exist."

Speaking at RAF Lyneham, Mr Hogg said the British Government would do everything it could to support Mr Perez de Cuellar's efforts.

He said it would be "extraordinarily encouraging" if Israel released some of the detainees it is holding in south Lebanon, although he noted that Israel is concerned to secure the return of Israeli servicemen thought held by pro-Iranian groups in Lebanon – or to see their graves.

"I think they (the Israelis) may be prepared to make a gesture because they would recognise that this would carry the momentum forward," Mr Hogg said.

UK pair fight IBM role in defence contract

By Clive Cookson

BRITISH Aerospace and General Electric Company of *the UK have launched* a last ditch lobbying campaign to stop the government putting IBM, the US computer company, in charge of a £1.5bn British defence contract.

The aerospace industry believes the Ministry of Defence has selected IBM to be prime contractor for the Royal Navy's Merlin helicopter programme, rather than a consortium of BAe and GEC Marconi called Merlin Helicopter Management. The Navy plans to order 50 anti-submarine helicopters, based on the EH101 developed jointly by Westland of the UK and Agusta of Italy.

In a letter to the prime minister, *Mr John Major, Mr Dick* Evans, BAe chief executive, says the UK defence industry will be hit hard if the order goes to IBM. He raises the possibility that the US government could block exports of the helicopter if it uses American computer technology.

Westland will be an important sub-contractor for Merlin, whether or not BAe-GEC or IBM becomes the prime contractor. *The helicopters themselves* will be built at Westland's factory in Yeovil, Somerset.

The prime contractor will coordinate the development of sophisticated electronic systems to enable EH101 helicopters stationed on the Navy's Type 23 frigates to hunt down and destroy enemy submarines. The prime contractor is responsible for the overall management of the project.

BAe and GEC are anxious to win the Merlin contract because they need UK experience when competing for work overseas.

But Westland is supporting IBM, because its engineers will have more work to do on Merlin's electronic weapons systems if IBM is in charge than if BAe-GEC wins the contract. Westland points out too that IBM has already acted successfully as prime contractor to the US Navy for its new generation of anti-submarine helicopters.

IBM says computer software is being developed specially in the UK for Merlin. It will not rely on existing IBM technology and therefore will not be subject to US export controls.

Continued on Page 14

Former BCCI treasury chief speaks out over 'cover-up'

By Richard Waters in London

THE former head of Bank of Credit and Commerce International's treasury department yesterday attacked a "cover-up" by other former executives which he said was designed to put much of the blame for the bank's failure on him.

Mr Syed Ziauddin Ali Akbar, denied that he had been paid $32m to keep quiet about his time at BCCI, which he left in 1986.

He was speaking publicly for the first time about part of BCCI's operations which has been pinpointed by its auditors and bank regulators as central to the losses and subsequent fraud at the bank.

In its damning report to the Bank of England in June this year, which led directly to the closure of BCCI, Price Waterhouse claimed that Mr Akbar took documents with him when he left the bank and used these later to blackmail it into paying him $32m.

"It's absolute rubbish," he said at an interview yesterday afternoon. He added: "I didn't take any papers." The auditors had not confronted him with any of their allegations, including claims that he had covered up losses in the treasury department of *almost $1bn, he* said. Mr Akbar, aged 47, was speaking in the offices of Capcom, a brokerage firm he joined when he left BCCI and of which he is still a large shareholder.

Syed Ziauddin Ali Akbar: attacked "cover-up"

He claimed that allegations that BCCI's treasury division had made huge losses before he left the bank in 1986 were totally false – as were claims that he *had given a statement* of the losses to Mr Swaleh Naqvi, BCCI's former chief executive.

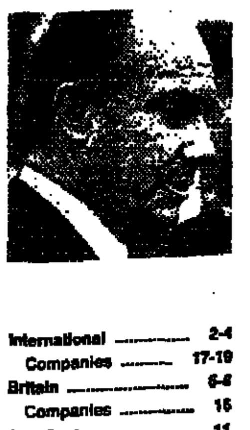
"I categorically deny that I have prepared any statements of any losses. The treasury division made a least $100m profit while I was there," he said. Mr Akbar also spoke out against former BCCI executives and auditors, who he claimed were trying to make him the scapegoat for the bank's losses.

Mr Akbar was sentenced to 18 months in prison in October 1990 for drug money laundering. He served six months and is now appealing against the *conviction.*

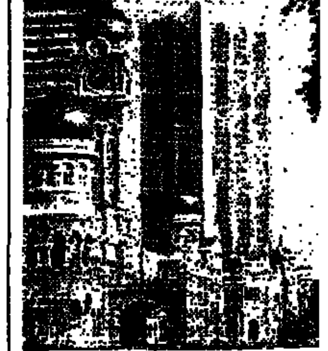
Full interview, Page 6

CONTENTS

THE MONDAY INTERVIEW



FORTHCOMING FT SURVEYS



MALAYSIA
Above: buildings old and new in central Kuala Lumpur.
See survey details, right

■ SATURDAY AUGUST 17 :
Careers and Courses : lessons to be learned on career counselling, language courses, cramming and the job market.

■ THURSDAY AUGUST 29 :
Malaysia : one of Asia's most dynamic countries is attracting more foreign investors, especially in *manufacturing and industrial* sectors.

■ FRIDAY AUGUST 30 :
Zimbabwe : 11 years after achieving independence, Zimbabwe is on the brink of momentous changes that will determine its economic performance in the 1990s.

INTERNATIONAL NEWS

Gorbachev comes under mounting party criticism

By John Lloyd in Moscow

SOVIET President Mikhail Gorbachev is facing growing criticism within the Communist party as it grapples with a loss of institutional power and mass support.

The disintegration of the party – stimulated by a decree issued two weeks ago by Mr Boris Yeltsin, the Russian president, banning political parties from the workplace – is now proceeding so rapidly that a split may occur before the party congress in November or December.

Mr Gorbachev, who is certain to meet a stiff challenge at the congress, faces growing calls to cancel the Yeltsin decree, which is decimating party branches.

But he cannot do so without putting at risk the relationship with Mr Yeltsin, which provides the linchpin to the fragile reform movement in the Soviet Union.

Pravda, the normally loyal newspaper of the party's central committee, produced a weekend issue which gave prominence to criticisms of the general-secretary. It highlighted a press conference given on Friday by Mr Boris Gidaspov, the hardline secretary of Leningrad's Communist party at which he said the inaction of Mr Gorbachev over the Yeltsin decree was hurting the CPSU.

Gorbachev: stiff challenge

This charge is undoubtedly true, as every day brings fresh news of party branches closing, even within the KGB and government ministries.

The Leningrad party decided to flout the Russian president's ruling until the USSR constitutional committee pronounces on its legality in September.

The decree came into effect last Sunday.

A statement from a meeting of the party's politburo – which, as usual, gives no date for the meeting – calls for the party to concentrate on the working class which, it said, had become "alienated from property and from power".

A separate meeting of the party's central committee secretariat over the weekend concluded that party activists must provide assistance to workers in the power supply industry to "avoid possible large lapses in the supply of electricity to the national economy and the population in the coming winter".

It also noted that pensioners were becoming increasingly concerned by "attempts to cancel the country's history" – an indication of the resentment among Soviet citizens who matured in the Stalinist period and who have been disoriented by the abandonment of socialist ideals.

Soviet envoy in Afghan talks

A SENIOR Soviet envoy opened talks with Pakistani officials yesterday aimed at promoting efforts for a political settlement to the 13-year Afghan civil war, Reuter reports from Islamabad.

A Soviet delegation led by Mr Nikolai Kozyrev immediately went into talks with Pakistani Foreign Ministry officials and later was to call on President Ghulam Ishaq Khan, a government spokesman said.

Mr Kozyrev, who led the Soviet delegation that negotiated the Geneva Accords in 1988 that led to the withdrawal of all Soviet troops in Afghanistan, will meet Mr Nawaz Sharif, the prime minister, today. He may also meet some of the mujahideen guerrillas based in Pakistan, but mujahideen sources said they were waiting for details.

The mujahideen would prefer to talk to the Soviet Union rather than the Soviet-backed government in Kabul because they believe Moscow holds the key to peace in Afghanistan.

French rail protest

French police fired tear-gas yesterday to disperse protesters who blocked train tracks in several locations, immobilising 40 trains and leaving 20,000 passengers stranded, AP reports from Marseilles. The demonstrators were protesting at plans to lay track for high-speed trains through wine-producing regions of Provence, a scenic area of southern France.

Hundreds of protesters blocked train tracks at Arles, Senas, Miramas, Sorgues and elsewhere to demand that an independent commission review the French national railway's project.

Low vote in Hungary

An embarrassingly low 16.2 per cent turnout in a parliamentary by-election in north-eastern Hungary, where the finance minister was one of the candidates, yesterday forced a second round, an election officer said, AP reports from Budapest.

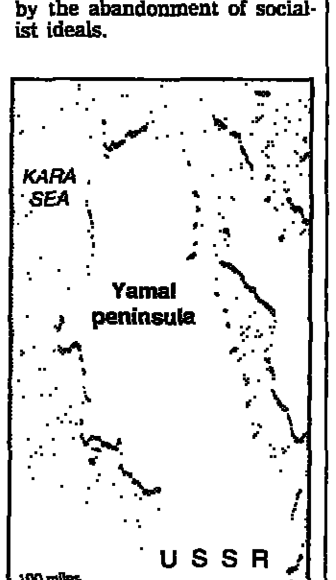
Voters from 36 villages in the Borsod-Abauj-Zemplen county were to decide who replaces Miklos Nemeth, the last Communist prime minister, who earlier this year was elected vice president of the London-based European Bank for Reconstruction and Development and resigned as MP.

Space shuttle lands

The space shuttle Atlantis landed in Florida yesterday at the end of a nine-day mission to deploy a \$120m communications satellite for the US space agency, Reuter reports from Cape Canaveral.

Anglo-Soviet group wins gas concession

By Paul Cheeseright, Midlands Correspondent



ORBICOM, the Anglo-Soviet trading company based in Shrewsbury, Shropshire, has been granted what it claims are the first concessions to a western company for the exploitation of gas in the Yamal Peninsula.

The peninsula in western Siberia is surrounded by the Kara Sea, where exploration has led geologists to believe that reserves are more than the combined resources of all other Soviet offshore fields. The reserves on and around the Yamal Peninsula are thought to exceed those of Urengoi, the western Siberian on-shore gas field, said to be the world's largest.

The production concessions granted to Orbicom cover two areas on the western side of the Yamal Peninsula: Kharasevei and Kruzenshtern. Mr Mark Jones, chairman of Orbicom, said the reserves of Kharasevei were at least 50m tonnes of gas condensate and of Kruzenshtern at least 100m tonnes.

The corporate vehicle set up to handle the operation is Yamal Oil and Gas, which is UK-registered. Orbicom has a 50 per cent stake. The balance of the equity is held by two regional and state-owned agencies – Tyumen Geologiya, handling exploration, with 20 per cent, and Yamalneftegazgeologiya, handling production, with 30 per cent.

Mr Jones said this joint venture agreement had been endorsed both by the government of the Russian Federation and by the Soviet authorities. But it is subject to two conditions:

- there should be an environmental impact assessment before full-scale production starts;
- the joint venturers should spend between 2 and 5 per cent of net revenues from gas production on programmes of benefit to the people of the region.

The agreement comes against a background of uncertainty about the status of foreign investment in the Soviet Union, although legislation designed to resolve this difficulty is being prepared in Moscow.

Legal confusion has kept the activities of western oil and gas companies in the Soviet Union at a low level.

Orbicom will be forced to seek the partnership of a major western oil company to bring Kharasevei and Kruzenshtern to full production. Mr Jones said he was having preliminary talks with three different companies, although he refused to name them.

Facing capital costs of up to £1bn, this venture is far outside the scope of any deal Orbicom has struck in the Soviet Union. The company, set up by Mr Jones, formerly a writer and historian, and his Russian wife, once an executive in a Soviet publishing house, has hitherto specialised in barter deals where gas has been used to pay for medical equipment and Rover cars. Orbicom has also been exploring a joint venture to establish a gas fractionation plant in the Tyumen region.

Using equipment already on the Yamal Peninsula, pilot production of up to 50,000 tonnes of gas condensate a year could start in 1991, Mr Jones said. In five years time, he hopes that production could reach 2m tonnes a year.

A young Albanian in Bari wields a rubber hose during clashes with police

Clashes erupt as Albanian refugees shun repatriation

By Judy Dempsey

SEVERAL thousand Albanians, who hijacked ships last week to escape domestic economic misery, are refusing to be repatriated despite the Italian government's determination to send them home.

Italian police, using batons and firing tear gas, fought the refugees in the southern port of Bari at the weekend, after a Red Cross office was destroyed by fire and barriers were broken down to gain access to food.

In Albania yesterday, Mr Perilki Teta, the defence minister, told an emergency cabinet meeting that all the country's ports were under military control. Durres, the largest, is surrounded by barbed wire and soldiers.

This is the third-largest exodus of Albanians since July last year, when thousands arrived in Italy and Germany. Over the past nine months the Rome government has accepted more than 20,000 Albanian refugees. However, the latest influx is caused by deteriorating economic conditions at home, rather than political oppression.

Despite its victory in the country's first free elections last April, the ruling Albanian (communist) Party of Labour ceded power after a wave of nation-wide strikes. It set up a coalition government in June.

In one of the first statements issued by the new government – headed by Mr Ylli Bufi – it said Albania needed food and raw materials. Mr Bufi appealed to the international community for "help and understanding".

A recent study by PlanEcon, a Washington-based economic think-tank, revealed the daunting challenges facing the government. It described how the Albanian economy "is a country closer to the developing world that its European neighbours."

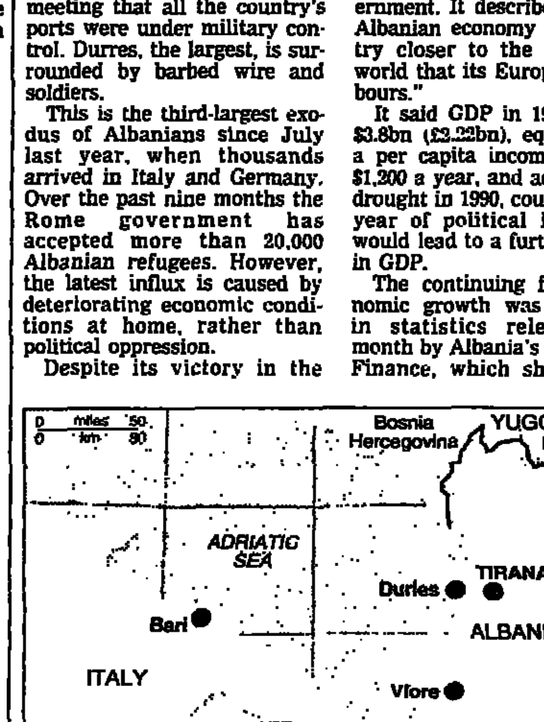
It said GDP in 1990 totalled \$3.8bn (£2.22bn), equivalent to a per capita income of about \$1,200 a year, and added that a drought in 1990, coupled with a year of political instability, would lead to a further decline in GDP.

The continuing fall in economic growth was confirmed in statistics released last month by Albania's Ministry of Finance, which showed that budget revenue in the first half of the year fell 22 per cent. The fall in output has affected, among other sectors, the mining and power industries, (which decreased by 32.5 per cent), light industry (42 per cent), and the food processing industry (19 per cent).

The ministry added the budget deficit would make it difficult to finance housing, education, health and other social welfare projects.

The number of people out of work is also rising. Just before the communist-dominated government resigned, Mr Fatos Nano, the outgoing prime minister, reported that more than 50,000 people, from a population of 3.2m and a labour force of 837,000, were unemployed.

The government, however, is committed to introducing economic reforms aimed at opening up the country to foreign investment. But this investment is likely to be hampered by the risk of growing political instability in this part of the Balkans.



Albania borders with the Yugoslav province of Kosovo, in which 2m ethnic Albanians, or 90 per cent of the population, live. Since last year, when the province came under the direct control of Serbia, thousands of ethnic Albanian intellectuals have been dismissed and the province's local councils have been "serbianised". Clashes between ethnic Albanians and Serb nationalists cannot be ruled out.

Last week, Mr Ramiz Alia, Albanian president, called for an "enhanced combat readiness and vigilance of all armed forces".

The prospects of regional instability, fuelled by a economic crisis in Albania, is likely to make the Italian government's task of repatriating those Albanians seeking a better life in the west more difficult.

Serbia and Croatia in prisoner exchange

By Judy Dempsey, East Europe Correspondent

THE YUGOSLAV republics of Croatia and Serbia, which have been embroiled in an unofficial civil war since June 25, agreed at the weekend to exchange prisoners.

The exchange may boost a fragile ceasefire implemented on August 7 but since punctured with mortar attacks and sporadic fighting between Croats and Serbs. However, few of the decisions taken by Yugoslavia's collective state presidency on August 6 to implement a ceasefire in Croatia have been carried out.

The first group of prisoners, which were exchanged on Saturday after two days of negotiations, included two Croatian national guardsmen and three Serb reservists. Tanjug, the Yugoslav news agency, reported that 20 more prisoners were due to be exchanged yesterday.

The Croatian authorities are holding 60 Serbs and Serbia about 120 Croats, although these figures are unofficial and have not been confirmed.

Despite the exchange of prisoners, the situation in Croatia remains uncertain as many measures stipulated by the ceasefire agreement remain unfulfilled.

These include the immediate separation of the opposing forces and their withdrawal to positions outside the range of small arms, the removal of mortars and other heavy weapons, and the setting up by the parties in the conflict of joint bodies to control and monitor the ceasefire.

A policeman was shot dead while on patrol in Croatia yesterday, the third person to die in fresh violence between Croatian police and national guards and Serbian rebels at the weekend.

He died in the Slavonia region of eastern Croatia, a flashpoint where more than 200 people have been killed in the past five weeks. Police officials said two other people were injured but gave no further details.

Among the weekend casualties was a Croatian Television cameraman, said by Croatian radio to have died in a mortar attack in the village of Kostajnica, south-east of Zagreb.

During its two-day emergency meeting which ended in Prague on Friday, the 35-member Conference on Security and Co-operation in Europe (CSCE) agreed to send more observers, this time to Croatia, to monitor the ceasefire.

But the Yugoslav authorities were reluctant to state how, when, where and what number of monitors should be deployed.

Moreover, Yugoslavia's representatives at the Prague meeting ruled out any attempts by the CSCE or the European Community to organise a peace conference outside Yugoslavia. Instead the Yugoslavs agreed to call their own peace conference on or before August 15.

But diplomats were pessimistic yesterday about the success of this conference. "Recent attempts to resolve the crisis have all failed miserably," one diplomat said.

He questioned what would happen when the August 15 deadline passed. "It seems to me that the Yugoslavs simply do not have the political will to sit down together and work out what should be done with the country's ethnic groups, or its internal borders.

"Despite even the greater instability we will witness in the near future, they don't want to seek neutral international observers to advise them."

In Paris, officials said yesterday that Mr Roland Dumas, the French foreign minister, would meet Mr Javier Pérez de Cuéllar, UN secretary-general, in Geneva.

They said he would discuss France's proposals to put the Yugoslav crisis before the UN Security Council.

Brazilian kidnapping on increase

By Victoria Griffith in São Paulo

A WAVE of kidnappings has hit Brazil, with six over the last two weeks in Rio de Janeiro alone bringing the total to 45 kidnappings in the city this year, against 37 in the whole of 1990.

Prominent businessmen and their families are a prime target. A few weeks ago the son of Mr Wagner Canhedo, owner of the Brazilian airline Vasp, was abducted. He reappeared several days later, saying he had managed to escape. Police suspect, however, the family paid a ransom.

A director of Coca-Cola was also held captive and, in a bizarre twist, two other directors from the company were kidnapped when delivering the \$261,000 (£152,600) ransom.

Last week police in Rio gunned down two brothers involved in an alleged attempt to kidnap the Brazilian television star Xuxa. One of the brothers died on the way to hospital while the other is recovering from his wounds.

Police say the kidnappers usually belong to the Comando Vermelho, or the Red Command, a crime organisation with links to drug trafficking.

ETA near to political victory over re-routing of highway

By Peter Bruce in Madrid

ETA, the Basque separatist terrorist organisation, is on the verge of winning an important political victory over Spanish and Basque authorities by forcing changes in the routing of a new highway.

The road will connect San Sebastian in the Basque country with Pamplona in neighbouring Navarra. However, ETA and its political front organisations – the political party Herri Batasuna and a radical ecological group – have opposed routing through Leizaran valley in Guipúzcoa, the Basque province bordering France.

ETA has killed three people and wounded nine more connected with the road's construction and has carried out 193 acts of terrorism against it.

On Friday Mr Eli Galdos, leader of the Guipúzcoan provincial government, agreed in talks with ETA-backed ecologists to re-route some of the planned highway away from the valley.

Mr Galdos is a member of the conservative Basque Nationalist Party, the PNV. This is the biggest Basque party and, though nationalist, is loyal to the Spanish state.

A decision by the party leadership to ratify Mr Galdos' agreement could prove to be a watershed in Basque politics and could distance the PNV from mainstream Spanish parties in Madrid's parliament.

A PNV decision would also have to be ratified by the provincial assembly, where it and Herri Batasuna fall two votes short of a majority. The PNV's coalition partner in the assembly is Prime Minister Felipe González' socialist party, which has not yet taken a stand on the agreement.

Herri Batasuna, meanwhile, immediately demanded changes to the route the highway will take when it enters Navarra, which the party and ETA claim as part of the Basque country.

The agreement marks the second time in a decade in which ETA has taken a stand against a project on ecological grounds and succeed in having it stopped or changed. Attacks on workers halted construction of the Lemoniz nuclear power plant 10 years ago. It has never been completed.

The decision to move the highway comes as Spanish and French police are scoring increasingly against the ETA leadership hiding in France. The group has been disrupting train traffic throughout Spain with bomb threats but it has been unable to make its presence felt recently.

Inflation rate slows in Mexico

MEXICO'S monthly inflation rate slowed to 0.9 per cent in July, the lowest rate this year and half that in July last year, writes Damian Fraser in Mexico City.

The cumulative rate for the first seven months of the year is 10.1 per cent, against a revised government forecast for 1991 of 16 per cent. The government is unlikely to meet its target; the consulting firm Grupo de Economistas y Asociados see inflation of 19 per cent this year, 11 points less than last year.

Slovakia's forgotten people search for an identity

Nationalist sentiment is on the increase in the Czechoslovak republic, writes **Ariane Genillard**

PEOPLE outside this country don't know who we are. Most of the time they confuse Slovakia with Slovenia," complains Ms Renata Martinkovicova, a young journalist in Bratislava, the capital of Slovakia.

"People abroad also forget that Czechoslovakia has two distinct republics; the Czech one and the Slovak one. They think Czech is just an abbreviation for Czechoslovak. We, the Slovaks, find this insulting," she adds.

Ms Martinkovicova's frustrations are often heard in the eastern republic of Slovakia which, with 5m people, holds a third of Czechoslovakia's population.

Slovak nationalist sentiments have been fuelled by heated discussions between Slovak and Czech leaders over new republican and federal constitutions, which have to be written before the next round of elections, scheduled for spring of 1992.

There are widespread doubts the two republics will agree on the form of future co-existence: republican and federal leaders have met several times this year without making ground.

Instead, the power-sharing agreement between the federation and the republics, concluded last December and which was to form the basis on which the constitutions would be elaborated, has become obsolete.

It was widely supported by the Slovak movement, Public Against Violence (VPN), which rose to power in the wake of the November 1989 revolution.

Since then Slovak support for the federation has been steadily ebbing. In the political sphere the once-dominant VPN has been replaced by a fragile coalition which vies to attract supporters with nationalist slogans.

The VPN divided when Mr Vladimir Meciar, the ousted prime minister, set up his own movement last March. Supported by radical nationalists and former communists in parliament, the new party emphasises Slovak concerns.

In the economic sphere, companies which were to remain federal – for example, oil and gas companies – have recently split to become republican. Another battle is raging over the fate of the country's telecommunication network.

The republic's rising nationalism is mocked by Prague, which points out that Slovakia's four years of independence was under a fascist regime in the 1940s

Federal authorities, often joined by Czech politicians, accuse Slovak leaders of using nationalism as a tool to obtain greater powers.

But polls show that only 13 per cent of Slovaks would opt for independence if given a choice.

Recently the Civic Democratic Party (ODS), headed by Mr Vaclav Klaus, the powerful federal finance minister, helped push through the federal assembly a referendum law. Last week, VPN, which has often met with ODS members, called for such a referendum.

Other Slovak parties are more careful, however, when it comes to deciding on their republic's fate. They agree a referendum should be a last resort, once all negotiations have failed. Talks, they say, must include the amount allocated by the federal authorities to help Slovak enterprises restructure.

Slovakia is burdened with heavy industries created under the communist regime in an attempt to industrialise the rural and poor regions.

Despite a 1968 law which turned the Czechoslovak unitary state into a federation, the former authorities ruled from Prague. Today, Slovaks say the federal authorities must bear responsibility for the outmoded enterprises, which are closing down at an increasing rate.

They cite as an example the federal fund set aside for the conversion of the Slovak arms industry to civil production. Such a fund should be extended to include other Slovak enterprises, prominent politicians assert.

The Slovak's rising nationalism is mocked by Prague, which points out that Slovakia's four years of independence was under a fascist regime in the early 1940s. Slovaks feel frustrated and isolated but some, like Mr Jan Carnogursky, the republic's prime minister, talk of joining the EC as a "separate entity" in 10 years.

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INTERNATIONAL NEWS

Kaifu signals reconciliation with China

By **Yvonne Preston** in Beijing

MR TOSHIKI Kaifu, Japan's prime minister, yesterday signalled his country's readiness to consign the events of June 4, 1989, to history when he laid a wreath at the Monument to the People's Heroes in Tiananmen Square.

This ritual in Beijing, commemorating the "revolutionary martyrs" of the civil war which led to the Communist victory in 1949, is a normal part of a visiting foreign leader's itinerary. On this occasion, though, it had special symbolic importance, having been held in the huge square where the democracy movement briefly flourished, alongside the avenue where many young protesters were killed in June 1989.

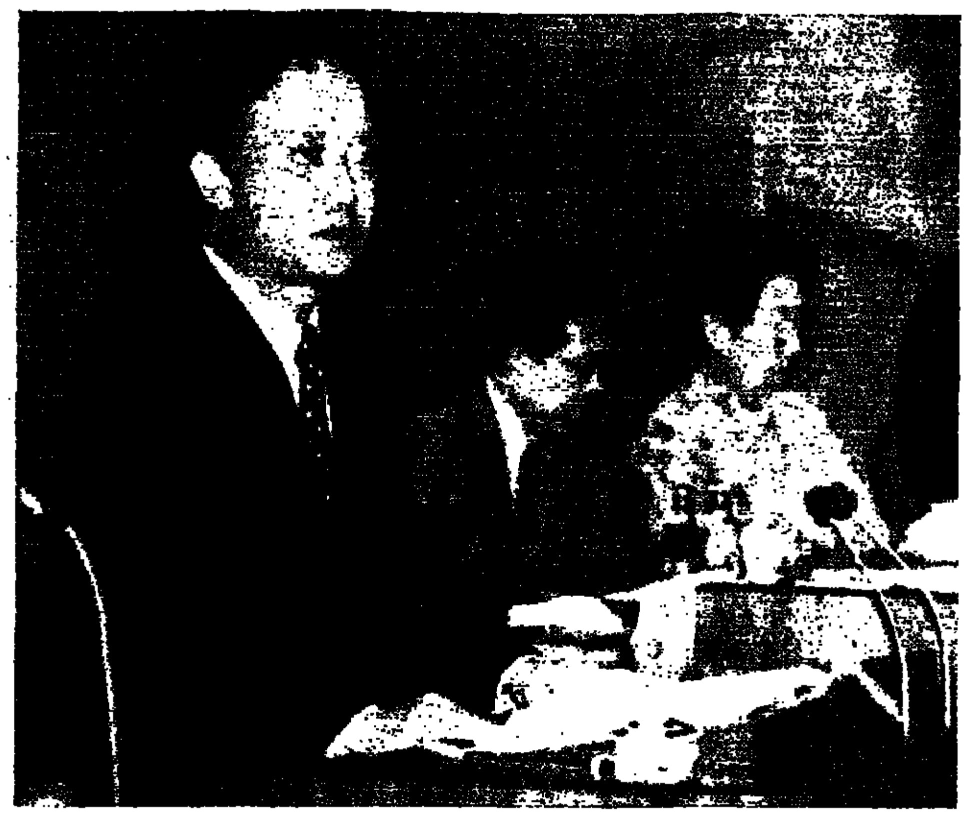
The ceremony was a diplomatic coup for China, which wants to normalise diplomatic relations fractured two years ago, and to end economic sanctions and the ban on top-level visits imposed by foreign governments in protest at the crackdown on political dissent.

Mr Kaifu's four-day visit is the first by the leader of a hard-currency industrialised country in two years. It spells the end to Japanese sanctions, and precedes official visits to China by other such government leaders. The first in line is Mr John Major, UK prime minister, who will begin a five-day visit on September 1 and sign the agreement to build Hong Kong's new airport.

On Saturday, Mr Kaifu had talks with his opposite number in China, Li Peng, who told him China had decided in principle to become a signatory to the nuclear non-proliferation treaty. China is the only non-signatory among the five permanent members of the UN Security Council.

Mr Kaifu called the decision an epochal step, saying its announcement during his visit demonstrated the importance China attached to its ties with Japan.

He commended China on its role in seeking to secure a settlement in Cambodia and praised North Korea's decision to apply for full membership of the UN, believed to have been made under strong prompting from China.



Japanese prime minister Kaifu addressing a Sino-Japanese youth organisation in Beijing yesterday

Speaking yesterday at the Sino-Japanese Youth Exchange Centre in Beijing, Mr Kaifu said stable relations between the countries were essential to the peace and stability of the Asia-Pacific region. In the long history of Sino-Japanese friendship there had been "an unfortunate period for which Japan should deeply reproach itself", but 1992 marked the 20th anniversary of normalised relations, which would continue to develop solidly into the 21st century.

A visit to China by Emperor Akihito of Japan is expected to be announced for next year during Mr Kaifu's visit. The emperor was formally invited by Qian Qichen, foreign minister, in Tokyo in June.

According to the newspaper China Daily, trade between China and Japan has suffered no lasting ill-effects from China's diplomatic isolation. Chinese customs figures show total trade at $8.3bn in the first half this year – an increase of almost 25 per cent over the equivalent period last year.

Seoul seeks Korean summit

THE Seoul government said yesterday it wants a Korean summit meeting and that it will pursue this goal when the prime ministers of North and South Korea talk this month, Reuter reports from Seoul.

The Korea Broadcasting System (KBS) said Seoul wanted "to improve the level of dialogue" at the August 27-31 talks, leading to a meeting of the two presidents, Roh Tae-woo of the South and Kim Il-sung of the North.

State-run KBS quoted an unidentified senior government official as having said: "International circumstances are set to help promote ties between South and North Korea, with [the Koreas'] simultaneous entry to the UN."

The Security Council last week approved resolutions paving the way for the Koreas to join the UN in September.

Philippine surplus

The Philippines posted a balance of payments surplus of $733m in the five months to end-May, after a $91m deficit a year earlier, the Central Bank stated, Reuter reports from Manila.

The new figure represented a sharp rise over the $268m surplus in the first four months.

Vietnam promised 'government of people' by PM

VIETNAM'S prime minister Mr Vo Van Kiet has vowed to forge "a genuine government of the people" while fighting corruption and excessive bureaucracy, according to reports in Bangkok yesterday, AP reports.

Mr Kiet, 69, was speaking to the National Assembly on Saturday, a day after he was elected to head a reformist government. He said one important task would be "to build a legislature government, making our government a genuine government of the people.

"Meanwhile, the legal system must be made progressively perfect. The country must be governed by laws," he said.

He told a news conference on Saturday that he hoped for normal relations with China, and said the US trade embargo was "a big obstacle to Vietnam". But his country was receiving co-operation from many in the international community, he added.

Ties between Hanoi and Washington are improving slowly but the US continues to forbid its citizens to do business with Vietnam.

On Saturday, Vietnam and China issued a joint communiqué that the two countries would move toward normalised ties for the sake of peace and stability in the region. The statement came after three days of bilateral talks in Beijing.

"Our policy is to do our best to normalise Sino-Vietnamese relations. We attach great importance to broadening our co-operation with countries in the region, especially neighbouring countries, China more particularly," he told reporters.

In his assembly speech, Mr Kiet reiterated that further steps would be taken to liberalise the economy.

"We are determinedly pushing forward the fight against bureaucracy and corruption, which are common at present, have become a source of pain, and one of the biggest obstacles on our road to renovation," he said.

Efforts had to be made to eliminate those who were "bureaucratic, irresponsible, corrupt, power-abusive, and theyviolate people's rights".

Although regarded as relatively liberal, Mr Kiet is believed, like other Vietnamese leaders, to espouse the continued political supremacy of the Communist Party. Vietnam's reforms of recent years have been carried out within the framework of the party and the government that it directs.

Patti Waldmeir **analyses weekend violence in South Africa**

De Klerk set to ride out storm

WHEN South African police clashed with ultra-right-wing whites in the western Transvaal town of Ventersdorp on Friday night, Mr Andries Treurnicht, Conservative Party leader, declared this the start of the Third Boer War.

He has made such a claim before: for more than a year, the leader of the opposition in parliament has been proclaiming the beginning of what he calls the "third freedom struggle" (the others he sees as having been the two Boer wars of the late-19th century).

However, apart from isolated incidents (of which events on Friday, that left three whites dead, were by far the worst); there is little evidence to support his claims. Recent opinion polls have shown that the overwhelming majority of South Africans, black and white, supports a negotiated transition to a post-apartheid future; those who prefer racial war remain a lunatic fringe.

Indeed, the Conservative Party last year quietly abandoned a campaign to get 1m signatures on a petition to halt political reform; the number of troops the right could muster for war must also be limited.

Even so, the violence on Friday – which took place when President F W de Klerk addressed a National Party political meeting at Ventersdorp, the capital of right-wing South Africa - demonstrates what havoc can be caused by a small number of committed white supremacists. There were probably no more than 1,000 present – supporters of the para-military Afrikaner Weerstandsbeweging (AWB), the main Afrikaner resistance movement.

Both sides had teargas and guns. Eye-witnesses say it was impossible to tell who shot whom, or which side fired first. At the end of the evening, two whites lay dead (a third has since died in hospital), though it has emerged that only one of the men was shot; the other two were hit by vehicles in the confusion.

The confrontation demonstrated the worst side of South African life: AWB members attacked defenceless blacks returning to their homes after work and, when a white nursing sister arrived in an ambulance to treat the wounded, she refused to transport the blacks to hospital. It also demonstrated an important fact - that white police, many of whom bitterly oppose political reform and sympathise with the AWB, will fight to maintain law and order, even if it means shooting at their own people.

Police are understaffed and underpaid. Also, after the removal Mr Adriaan Vlok from the law and order ministry two weeks ago – a move which appeared to imply a vote of no confidence in the police force after recent allegations of collusion in some black violence – morale is low.

For all that, on Friday night at Ventersdorp, policemen intervened to protect blacks against AWB attack, and the officer in charge gave the order to "shoot to kill" at the AWB (though he claims this was not carried out). Police trained in riot control (never South Africa's strong suit) could have defused the situation without deaths, but at least force discipline was maintained.

This evidence of police loyalty should help allay the fears of those Nationalists who fear that rapid political change will provoke a security force revolt.

However, the bitterness of the clashes demonstrates the danger of ignoring the ultra-right, and Mr de Klerk will be able to use the Friday events to caution against too rapid a change. Indeed, they provided a diversion from the recent scandal over secret government payments to the Zulu Inkatha movement and allegations that police have sided with it in township violence. They will allow Mr de Klerk to portray himself as the opponent of white supremacy, and to counter ANC claims that he seeks to perpetuate white rule.

Assessing Ventersdorp with a cold political eye, the clash could not have come at a better time for him.

THE leader of South Africa's biggest neo-Nazi group, angered by the death of three of his men in clashes with police on Friday night, threatened revolution yesterday unless President F W de Klerk calls a whites-only election, Reuter reports from Pretoria.

Mr Eugene Terre Blanche said his Afrikaner Resistance Movement was mobilising for "the fight I am sure is coming" against the government and the African National Congress.

"De Klerk must give the [white] voters the opportunity to vote in an election. If he doesn't, then there can come a war," Mr Terre Blanche told a news conference.

Madagascar opposition declares 'open war'

THE opposition in Madagascar, angry at the deaths of 11 demonstrators on Saturday in a clash with government troops, said yesterday it was stepping up its campaign into "open war" on President Didier Ratsiraka, Reuter reports from Antananarivo.

A government communiqué said 11 people died and more than 200 were injured in "an illegal assault" on the presidential palace, eight miles south of the capital, but denied troops had killed anyone.

It said they fired over the heads of demonstrators and used teargas to disperse them when they began stoning the soldiers.

This was the first time the army had used major force since the opposition began a campaign of demonstrations and strikes 10 weeks ago.

Retired general Jean Rakatoharison, named "shadow president" by the opposition, had declared open war on Mr Ratsiraka to force his resignation, an opposition spokesman said, adding that a series of steps, including a general strike starting today, would prolong the campaign against Mr Ratsiraka, who has ruled the Indian Ocean island since 1975.

Sheikh Obeid: bargaining chip

Israel sets price on release of Lebanese

Jerusalem's Shia Moslem prisoners may become focus of hostage bargaining, writes **Victor Mallet**

SOME of the keys required to free the remaining hostages from their Middle Eastern prisons are in Tehran and Damascus, but at least one is in Jerusalem, where the Israeli government is working for the release of seven Israeli soldiers captured or missing in Lebanon.

To bring back those seven men – or their remains, or information about their fate – Israeli officials say they are ready to liberate an estimated 400 Lebanese Shia Moslem detainees.

Largely forgotten in the west, these Lebanese prisoners are likely to become the focus of future hostage negotiations: Lebanese kidnappers, themselves Shia Moslems, are demanding they be released before the 10 westerners still held can go free.

Israel attaches two different labels to the Lebanese prisoners: on the one hand they are hostages to be swapped for Israelis and westerners (which raises awkward questions abroad about hostage-taking by America's principal Middle East ally); on the other they are terrorists caught trying to cross the border into Israel (which raises awkward questions at home about releasing dangerous guerrillas in such numbers).

Sheikh Abdul-Karim Obeid, the best-known Shia Moslem prisoner of the Israelis, falls into both categories. As a leader of Hizbollah, he is regarded both as a valuable bargaining chip and as an instigator of attacks on Israel.

Now 38, Sheikh Obeid was an engineering student who fell under the influence of Ayatollah Khomeini of Iran. Like all hostages, he is missed by his family. "He became an extremist," his mother Amina said in an interview with Reuters shortly after he was snatched by Israel. "I tried hard to convince him not to got Tehran but he would not listen."

Israeli commandos in helicopters kidnapped him from his home in Jibsheet two years ago and he is being held at an unknown location, reportedly in tolerable conditions.

Most of the Shia prisoners are not so lucky. They are incarcerated, along with some Palestinian and Lebanese left-wingers, in the notorious al-Khiam prison, a former French barracks in the Israeli "security zone" in southern Lebanon. Some of the prisoners are said to be women.

Former detainees have reported torture, beatings and insanitary conditions, but details are scarce because neither relatives nor international observers are usually allowed to visit the jail. Prisoners are seized and held without trial, sometimes for years. One Israeli said they were held "along the lines of prisoners-of-war".

When challenged on the appalling conditions at al-Khiam, Israeli officials shrug and say that the jail is the responsibility of the Israeli-backed South Lebanon Army, although Israel's offer to free all the prisoners shows that it has more than enough influence over the SLA. A few Lebanese are also jailed inside Israel.

Israeli officials boast that they play "hardball" with their enemies on the hostage issue, and the manipulation of captives certainly seems as crude in south Lebanon as in Beirut.

Recently two Lebanese prisoners in al-Khiam, interviewed by the SLA's radio station, appealed to Hizbollah's leaders to do a deal. "I'm suffering in prison and I very much need to get out," said 30-year-old Mr Samir Kassem. "There is an appropriate chance for that. We might be released through the Israeli prisoners or through the [western] hostages."

The jury is still out on the merits of dealing with hostage-takers. Americans will continue to disagree among themselves and the British and French with each other, but the Israelis have no qualms. In 1983, they won back six soldiers in exchange for 4,600 Arab detainees; in 1985, it was three for 1,150 in a deal lubricated by the kidnapping of a Palestinian guerrilla leader's nephew; in 1991, they hope that the Lebanese, made more valuable by the inclusion of Sheikh Obeid, will be adequate payment for the Israeli soldiers – and the westerners.

Tehran newspaper rejoices over killing

By Scheherazade Daneshkhu

AN IRANIAN newspaper, Jahan-e Islam, yesterday rejoiced over the assassination of Mr Shahpur Bakhtiar, the Shah's last prime minister and leader of a secular and liberal opposition group, who was found with his throat slit at his heavily-guarded Paris home on Thursday.

"Destruction of elements such as Bakhtiar gladdens the nation and the suffering families of martyrs," the paper said in an editorial.

Most Tehran papers were quick to hold other Iranian dissident groups responsible for the murders of Mr Bakhtiar and his aide, Mr Soroush Katibeh, who was stabbed to death. Abrar newspaper blamed Washington for the killings, saying the US was unhappy with the rapid growth of Tehran's ties with Paris.

A hunt for the three men who visited Dr Bakhtiar on Tuesday afternoon continued yesterday. One of them, Mr Fereidun Boyr-Ahmadi, was a trusted acquaintance and handyman who had known Dr Bakhtiar for the past 10 years.

Mr Boyr-Ahmadi told Mr Bakhtiar that two supporters had arrived from Tehran and wanted to meet him. The three men were searched by Mr Bakhtiar's guards before entering the house. Knives from the kitchen were found near the bodies. Mr Boyr-Ahmadi also knew Mr Abdol Rahman Boroumand, Mr Bakhtiar's treasurer, who was stabbed to death in Paris in April.

The guards appear to have suspected nothing untoward for two nights despite the absence of Mr Katibeh the following morning to pick up milk deliveries.

Investigators believe the three visitors used the intervening 36 hours to leave France.

MPs vote for hostage hardliner

MR Ali Akbar Mohtashemi, Iran's most vocal supporter of Lebanese hostage-takers, was elected chairman of parliament's defence committee yesterday, the Iranian news agency IRNA said, Reuter reports from Nicosia.

Hardliners have a majority in parliament and head most of its committees.

Mr Mohtashemi, a Shia Moslem cleric, helped set up Lebanon's Hizbollah (Party of God) which, despite its denials, is widely believed to be behind the kidnapping of westerners in Lebanon.

Unlike in previous hostage releases, Mr Mohtashemi and other Iranian hardliners have so far raised no public objection to the freeing of British hostage John McCarthy on Thursday and American Edward Tracy yesterday.

Tracy: the fortune hunter who raised kidnappers' suspicions

MR Edward Tracy, the American hostage freed yesterday, came to Beirut at the start of Lebanon's civil war and stayed despite the dangers, Reuter reports from Beirut.

Before that he led a rambling life for almost 20 years in Europe, the Caribbean and the Middle East. His kidnappers, the Revolutionary Justice Organisation, concluded from his background that he was a spy.

Washington denied it. Accounts from his New England family portrayed Mr Tracy, now 60, as a small-time fortune hunter, always seeking his pot of gold.

"He chased money all over the globe," his mother, Doris Tracy, told the Vermont's Burlington Free Press newspaper on October 21, 1986, the day kidnappers announced they were holding her son. "Sometimes he got it, sometimes he didn't."

Tracy's German-born wife Inga, who spent years with him in Lebanon before their divorce, says he was not a spy then and that the odds he became one after they separated were small – unless he needed the money. "He'd do anything for money," she told the Burlington newspaper in 1986.

Edward Austin Tracy, known as Ned, was born in Rutland, Vermont, on November 30 1930, and raised in nearby Burlington.

He spent two years in the air force, serving in Korea. In 1958 he left his small-town roots behind for good.

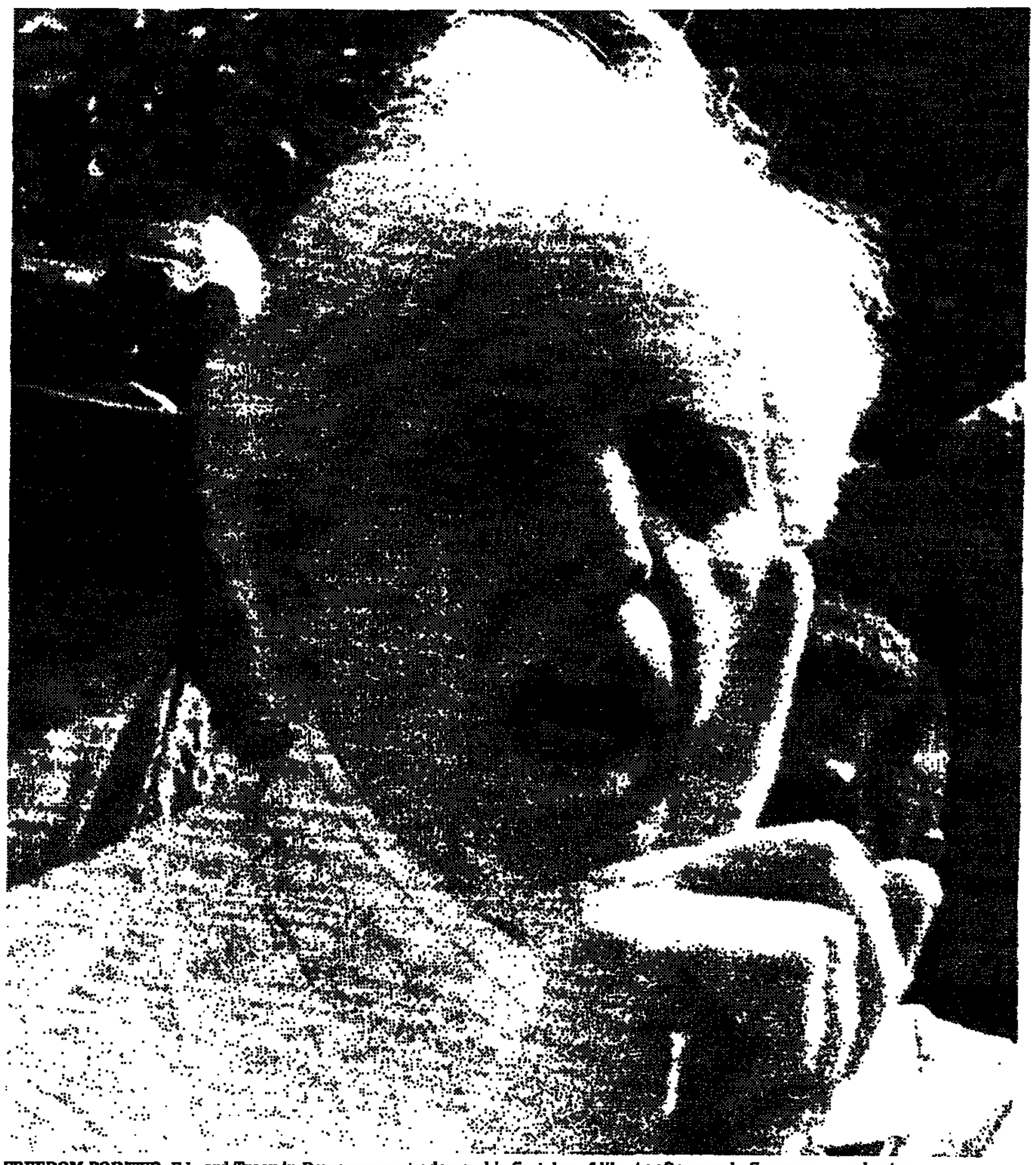
He lived in France, Italy, Trinidad, the Canary Islands, Egypt Iran, Iraq and Germany. He returned only once to the US in 1965 to spend a month-long visit with his mother, who still lives in South Burlington.

During his stint in Germany, where he met Inga, Mr Tracy started a beer hall which flopped and on another occasion wrote that he thought "he'd be able to find an inheritance", his mother said.

By the time he moved to Beirut in the mid-1970s, Mr Tracy was 45 and had been roving for nearly 20 years.

He and his wife sold English-language books, mainly encyclopaedias and American classics. It was not clear what allure war-torn Beirut held for him or why he stayed.

His pro-Iranian kidnappers had abducted American Joseph Cicippio about a month previously.



FREEDOM POINTER: Edward Tracy in Damascus yesterday on his first day of liberty after nearly five years as a hostage

McCarthy urges remaining captives to 'keep the faith'

By Tim Lawrence at RAF Lyneham

MR John McCarthy broke his silence yesterday about his five years in captivity and his release last Thursday.

Speaking at RAF Lyneham, in Wiltshire, after handing over a letter from Islamic Jihad, his kidnappers, to Mr Javier Pérez de Cuéllar, the UN secretary-general, Mr McCarthy said he was feeling "very good", although "a little nervous".

Mr McCarthy said he was "absolutely delighted" about the release of the US hostage, Mr Edward Tracy, earlier in the day. He said he knew what Mr Tracy must be experiencing on his journey to Damascus – "what it's like to be seeing the sun, the trees and people as he is driving along".

Mr McCarthy urged the remaining hostages to "keep the faith" and said that Mr Terry Waite, the Archbishop of Canterbury's special envoy and a fellow British hostage in Lebanon, was physically and mentally in good shape. "He hasn't shrunk but he has lost a bit of weight and I think he's quite happy about that," Mr McCarthy said.

He described Mr Waite and two US hostages, Mr Tom Sutherland and Mr Terry Anderson, as "men of enormous strength, dignity and humour". "The friendship we had has supported each other mutually and I think that is why I can appear as I am. I owe everything to those men and before them to Brian Keenan [the Irish hostage freed last year]," he said.

At lunch, Mr McCarthy told Mr Pérez de Cuéllar of his imprisonment and he was said to be remarkably composed and articulate.

He said he would probably stay at the north Wiltshire base for a few more days. He is being debriefed by the RAF, undergoing medical tests and spending time with his father and brother, who are living with him in VIP quarters.

Miss Jill Morrell, who was Mr McCarthy's girlfriend at the time of the kidnapping and founded the Friends of John McCarthy pressure group, has not visited RAF Lyneham since Friday morning.

Mr McCarthy said he did not know his plans for the future although he was considering re-entering journalism.

INTERNATIONAL ECONOMIC INDICATORS: **PRICES AND COMPETITIVENESS**

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout, other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

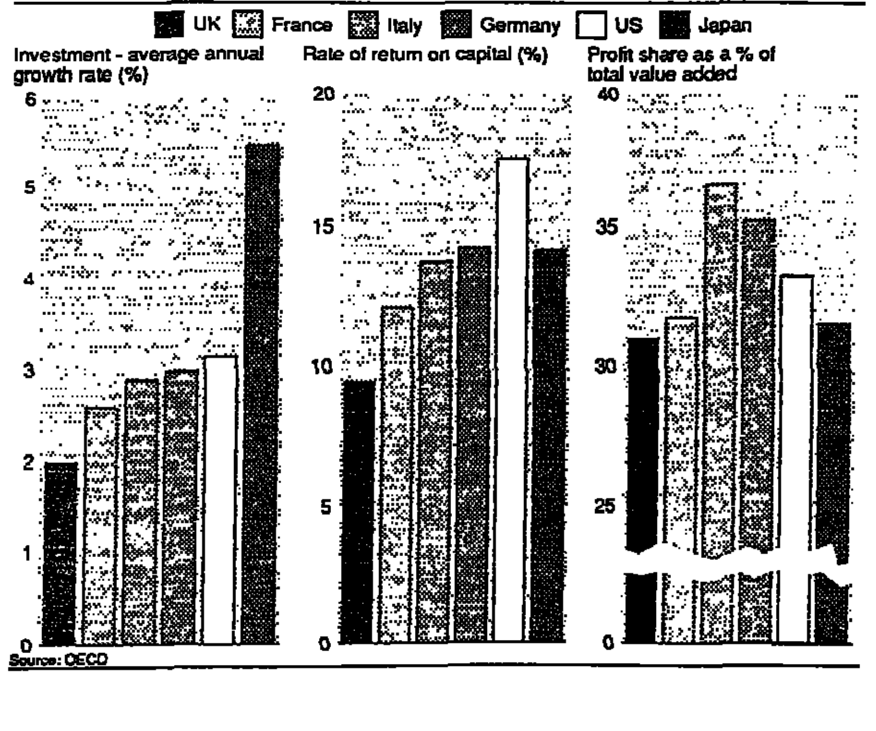
	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	96.6	99.1	96.0	96.4	97.1	98.0	100.8	97.0	99.0	100.1
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.9	77.1	100.9	95.3	101.4	104.0	125.7
1987	105.6	100.7	104.0	97.5	64.7	101.3	92.5	103.1	101.0	126.9
1988	109.9	103.2	107.0	98.4	59.9	102.3	92.3	107.8	96.0	137.4
1989	115.2	108.5	110.0	99.1	63.0	105.1	94.2	114.0	96.0	131.3
1990	121 5	113.9	114.0	99.2	56.6	108.3	95.7	120.1	100.0	116.1
3rd qtr.1990	5.5	4.9	3.6	−0.5	55.8	2.8	0.7	3.4	3.1	112.3
4th qtr.1990	6.2	6.4	3.6	0.6	52.1	3.5	2.4	5.7	3.1	120.8
1st qtr.1991	5.3	3.4	3.6	2.3	52.7	4.0	2.8	3.8	1.0	117.9
2nd qtr.1991	4.8	3.3		2.6		3.3				
July 1990	4.8	3.6	3.6	−0.8	n.a.	2.6	0.5	3.9	1.0	n.a.
August	5 6	5.2	2.7	−0.5	n.a.	3.0	0.5	1.5	4.2	n.a.
September	6.2	6.0	3.6	−0.3	n.a.	2.8	1.1	4.5	4.1	n.a.
October	6.3	6.5	4.5	−1.2	n.a.	3.1	2.0	4.9	2.1	n.a.
November	6.3	7.0	3.6	0.6	n.a.	3.9	2.5	5.5	3.1	n.a.
December	6 1	5.7	3.6	2.6	n.a.	3.7	2.5	6.0	3.1	n.a.
January 1991	5.7	4.0	4.5	1.8	n.a.	4.3	2.8	1.9	0.0	n.a.
February	5.3	3.4	3.6	2.6	n.a.	3.8	2.8	5.4	1.0	n.a.
March	4.9	2.9	2.7	2.6	n.a.	3.7	2.6	4.1	3.0	n.a.
April	4.9	3.2	2.7	2.4	n.a.	3.3	2.4	4.0	3.0	n.a.
May	5.0	3.4	3.5	2.6	n.a.	3.1	2.4	4.0		n.a.
June	4.7	3.5		2 9	n.a.	3 6				n.a.

	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	97.9	97.6	96.0	100.0	98.7	94.5	95.8	93.8	95.5	114.1
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3	102.5	97.2	103.9	101.5	101.9
1987	100.1	95.1	108.0	107.0	126.0	105.9	97.8	107 2	103.8	102.1
1988	101.4	96.2	113.0	107.0	126.2	108.8	102.8	110.5	104.3	99.3
1989	104.2	99.3	117.0	108.0	122.6	112.6	108.4	114.7	106.5	95.8
1990	107.0	101.0	123.0	111.0	126.8	116.4	107.1	119.9		100.8
3rd qtr.1990	2.7	1.8	n.a.	1.9	124.8	3.4	−1.4	n.a.		100.3
4th qtr.1990	3.0	1.8	n.a.	2.8	124.7	3.6	0.7	n.a.		102.7
1st qtr.1991	2.7	2.1	n.a.	2.7	124 3	3.4	0.7			101.9
2nd qtr.1991	3.1	2.2	n.a.			3.2				
July 1990	2.4	1.4	5.9	1.9	n.a.	3.0	n.a.	4.9	n.a.	n.a.
August	2.8	1.9	–	1.9	n.a.	3.5	n.a.	–	n.a	n.a.
September	3.0	2.1	–	1.8	n.a.	3.8	n.a.	–	n.a.	n.a.
October	3.3	2.0	5.9	1.9	n.a.	3.9	n.a.	4.7	n.a.	n.a.
November	3.0	1 8	–	3.7	n.a.	3.6	n.a.	–	n.a.	n.a.
December	2.8	1.5	–	3.7	n.a.	3.4	n.a.	–	n.a.	n.a.
January 1991	2.8	2.3	5.8	1.8	n.a.	3.5	n.a.		n.a.	n.a.
February	2.7	2.2	–	2.7	n.a.	3.5	n.a.		n.a.	n.a.
March	2.5	1.8	–	2.8	n.a.	3.2	n.a.		n.a.	n.a.
April	2.8	2.2		1.8	n.a.	3 2	n.a.		n.a.	n.a.
May	3.0	2.2			n.a.	3.2	n.a.		n.a.	n.a.
June	3.5	2.3			n.a.	3.3	n.a.		n.a.	n.a.

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	92.1	92.8	89.9	91.8	98.7	94.3	95.0	91.7	94.3	97.5
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4	103.4	104 3	107.7	104.5	92.9
1987	111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6
1988	116.5	106.8	118.4	109.7	101.9	113.0	113.2	128.2	108.9	96.8
1989	124.2	113.1	125.6	112.2	109.2	121.8	119.0	137.2	113.5	95.0
1990	131.8	117.8	134.7		117.1	133.3	126.0	150.1	123.7	98.4
3rd qtr.1990	6.1	4.1	7.3		118.1	10.4	6.0	9.7	9.3	102.9
4th qtr.1990	6.3	3.9	7.2		119.5	10.0	5.9	9.6	11.2	105.3
1st qtr.1991	6.6	4.2			118.3	8.7	6.3	8.9	10.7	107.2
2nd qtr.1991	6.8					6.0	6.0			
July 1990	5.7	3.4	7.4	n.a.	n.a.	9.8	6.0	9.5	8.3	n.a.
August	6.3	4.2	7.4	n.a.	n.a.	10.6	6.0	9.7	9.5	n.a.
September	6.3	4.5	7.2	n.a.	n.a.	10.9	5.8	9.8	9.8	n.a.
October	6.2	4.2	7.2	n.a.	n.a.	10.9	5.9	9.2	10.2	n.a.
November	6.5	4.0	7.4	n.a.	n.a.	9.7	5.9	9.6	11.5	n.a.
December	6.3	3.6	7.1	n.a.	n.a.	9.3	5.9	9.9	11.7	n.a.
January 1991	6.5	4.2	7.8	n.a.	n.a.	9.0	6.3	9.5	10.6	n.a.
February	6.7	4.2	7.8	n.a.	n.a.	8.9	6.3	9.1	11.4	n.a.
March	6.6	4.2		n.a.	n.a.	8.2	6.3	8.0	10.2	n.a.
April	6.7			n.a.	n.a.	6.4	6 2	9.2	12.3	n.a.
May	6.8			n.a.	n.a.	5.8	6.0	8.5	11.0	n.a.
June	6.9			n.a.	n.a.	5.8	5.7			n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. **Consumer prices**: not seasonally adjusted. **Producer prices**: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. **Earnings index**: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry) Hourly except Japan (monthly) and UK (weekly). **Unit labour costs**: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. **Real exchange rate**: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Incentives to invest in the business sector 1980-90



Source: OECD

Business profitability and the incentive to invest

BENEATH the dry prose, the lastest Bank of England annual review of UK company profitability paints a sorry picture. For the second time in a decade the combination of a recession, high interest rates and rising relative unit labour costs is strangling UK corporate profit margins.

The pre-tax real rate of return on capital for all industrial and commercial companies has fallen from a peak of 10.5 per cent in the fourth quarter of 1988 to an estimated 6 per cent in the first quarter of 1991, and 5.5 per cent when North Sea oil companies are excluded.

Profit rates recovered in the 1980s from the historic lows of the previous decade. Yet the peak rate of return for non-North Sea oil companies in 1988, the highest level since 1972, was lower than in any year in the 1960s.

The rate of return on capital should fall over time as economies become more developed and the profitability of marginal investment projects falls. The average real return in Japan has almost halved from an average 24.6 per cent in 1965-73 to 14.2 per cent in the 1980s.

Yet UK corporate profitability has remained at consistently low levels compared to other developed countries, while their output per head has exceeded that of the UK. The OECD estimates an average real return on capital in the UK of 9.5 per cent in the 1980s, the lowest rate of all the six largest industrialised countries, as the centre chart shows.

To estimate rates of return on capital, the OECD divides the gross operating surplus by the total capital stock. The gross operating surplus is the difference between total value-added and total labour costs, excluding any gains owing to inflation.

The capital stock refers only to assets included in non-residential fixed capital formation and excludes housing, inventories, monetary working capital, land and natural resources.

Does it matter that the rate of return on capital employed in the UK is less than in other developed countries? Yes, if companies and investors can choose freely where to invest, unimpeded by exchange controls. For profits act both as an incentive and a source of funds for new investment. Countries offering the highest rates of return should attract the most investment.

The theory seems to fit the facts. Britain has also had the lowest average annual growth rate of the business sector capital stock over the past decade, while those countries with higher capital stock growth also had higher rates of return on capital. Japan is the only exception to the rule, having experienced the fastest average growth in capital stock, despite a lower rate of return than both the US and Germany.

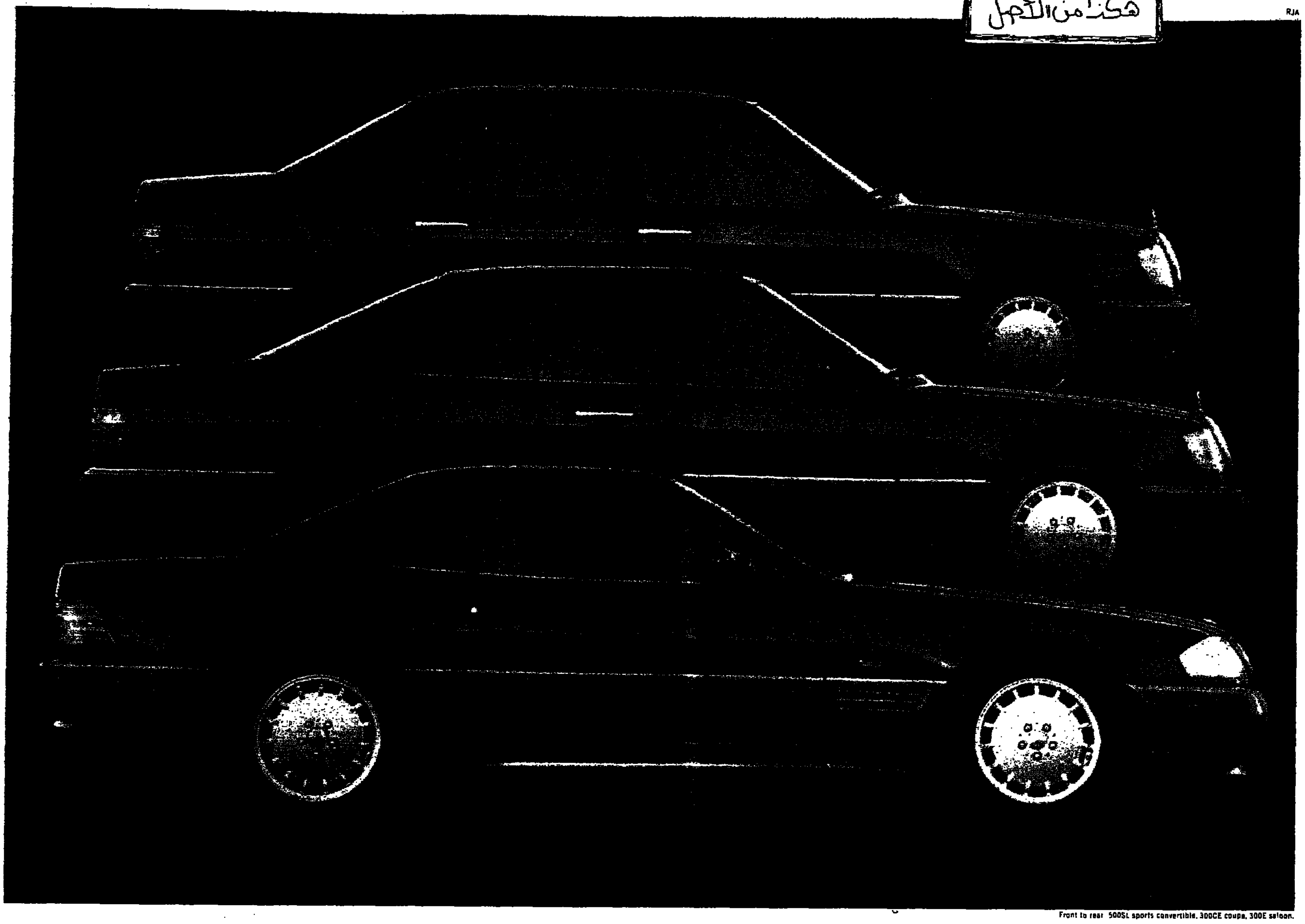
One reason for Britain's low corporate profitability might be that UK industry uses its existing capital stock less efficiently, rather than that the gains to new UK investment are low. The lack of a close correlation between rates of return on capital and the share of profits in total value added does suggest that there is substantial variation across countries in the efficiency with which capital is used. Italy has a lower ratio of profits to capital but a higher share of profits in value-added than either Japan, Germany or the US. So it must be using more capital to produce the same amount of value-added – it uses capital less efficiently.

The UK has both the lowest rate of return and the lowest profit share. A quick calculation shows the UK too has a higher ratio of capital to value-added than the more efficient countries. Yet the UK had faster productivity growth in the 1980s than any of the six countries except Japan, while the profit share rose little compared to the previous decade.

Most of the productivity gains were distributed as real wage increases rather than as profits. Between 1979 and 1988 real earnings in the UK rose by 28 per cent, more than double the increase in Japan, West Germany or France. In the US real earnings actually fell by 6½ per cent over this period.

Perhaps, then, the only way to raise the UK rate of return to capital and the share of investment in GDP is to raise the share of UK value-added that goes in profits rather than wage income – which is another way of saying that the UK needs a real exchange rate devaluation.

Edward Balls



Front to rear: 500SL sports convertible, 300CE coupe, 300E saloon.

"Good design is the art of knowing what to leave out"

Bruno Sacco, Director of Design, Daimler-Benz AG.

Bruno Sacco is a highly quotable man. He is, for instance, very eloquent on the subject of decorative elements on a car and how desirable it is to avoid them. He speaks of the "sculptural purity" of Mercedes-Benz bodies, and how they should be "functional, unobtrusive, yet express a clear dynamic message." You only have to glance at the three cars here to see what he means.

Timeless Styling Is A Good Investment

Sacco heads the design team that produced all three as well as the 190 series and the august S-class. And what he is expressing explains why Mercedes-Benz cars hold their value so well. By resisting shallow trends – by knowing what to leave out – Mercedes cars achieve a timeless freshness that protects your investment at trade-in time.

Car designers, says Sacco, are "applied futurologists." The trick is to produce shapes that will live long and well in the public consciousness. Look closely at any of today's Mercedes models and you'll see more than sculptural beauty, however. Every feature also has a down-to-earth purpose.

The closed-loop door handle, for example, is not only elegant and ergonomically satisfying to use – it can be a life-saver because it is designed to accept great pulling force after a catastrophic accident. Notice the deeply ribbed rear light cluster. This is no stylist's whim, but a meticulously profiled functional shaping that deflects dirt and grime. The vertical channelling on the A-pillar which frames the windscreen ensures that rain or washer fluid is kept off the side windows. The stylish protective side mouldings, apart from adding visual coherence to the overall design, do much to shield your car's bodywork from scrapes and knocks.

Art Of The Necessary

Mercedes design acknowledges both scientific imperatives and a wealth of tradition. At Mercedes-Benz, heritage is always an important ingredient; and for Bruno Sacco, an Italian of the Turin school, so is sensuality. Knowing what to leave out is a vital but elusive skill – as important, in fact, as knowing what to put in.

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THE BCCI SHUTDOWN

SYED ZIAUDDIN ALI AKBAR

Man who sees himself as scapegoat

By Richard Waters

FOR A man who is alleged to have been paid $32m "hush money" by Bank of Credit and Commerce International (BCCI), Mr Syed Ziauddin Ali Akbar seems unremarkable.

Modestly turned out in a blue suit and striped tie, this 47-year-old with a neat beard and intense stare still looks every inch the bank officer. He is by turns intense and nervous, eager to defend himself but wary of how the world will view him after recent allegations made about him.

Mr Akbar is at the centre of many of the allegations of wrongdoing surrounding the collapse of BCCI. According to Price Waterhouse, the bank's auditors, he took documents from BCCI when he left the bank in 1986 and used them later to blackmail his former employees for $32m.

The auditors also claim that he co-ordinated a massive cover-up, disguising billion-dollar losses in the treasury department that he ran between 1982 and 1986.

Other allegations have come from former executives at BCCI – such as Mr Masihur Rahman, BCCI's former chief accountant. Testifying before a Senate subcommittee in the US last week, Mr Rahman blamed treasury losses under Mr Akbar for bringing down what had previously been a profitable bank.

Mr Akbar, who served a six-month prison sentence for drug money laundering before being released in April this year, is angry. Former colleagues and the bank's auditors are trying to make him the scapegoat for BCCI's troubles, he says. His version of events is very different.

The picture painted by Mr Akbar is of a profitable treasury business within BCCI, overseen by two committees of senior executives, controlled by the bank's internal audit department and reliant on settlement and other departments within the bank for its operations – not the closed, secretive department described elsewhere, with enormous slush funds at its disposal to hide enormous losses.

According to Mr Akbar, BCCI's treasury operations were closely controlled by Mr Swaleh Naqvi, the bank's chief executive until last October, and Mr Adbul Hafeez, another senior executive.

A treasury committee chaired by Mr Naqvi met each morning to review the treasury results and to set the trading strategy, he says. A second committee – the investment committee – met each month to review the treasury operations.

"I reported to Mr Naqvi and Mr Hafeez, and they were directly responsible to Mr Abedi," he says. "If they were travelling or not available, Mr Abedi would call me himself."

He adds: "Mr Abedi used to give instructions himself to buy and sell – sometimes directly to me, sometimes to one of the dealers."

Mr Akbar is full of praise now for Mr Abedi, whom he describes as "charismatic" and a powerful leader. Mr Abedi, he says, was not involved in the day-to-day operations of the bank, in spite of his occasional instructions to the treasury team. Those trades were not always successful, Mr Akbar says.

Others in the bank also had a close involvement with what was happening in its treasury department. Mr Naqvi's own "special department" reviewed its results, Mr Akbar says. Also, BCCI's Cayman Islands operations, through which the trades were booked, and the UK settlement department, which issued payment and other instructions, were intimately involved with the trades.

To hear Mr Akbar describe it, he was simply an administrator, not even officially referred to as the manager of the treasury department. "I was simply a co-ordinator among several departments. I never originated any deals. In all, five departments were involved in what I was doing."

That is all a long way from allegations made by Price Waterhouse. The auditors have claimed that Mr Akbar was responsible for running a series of secret accounts through which deposits not recorded elsewhere in BCCI's books were used to make good treasury losses. They said that accounts in the name of Mr A.R. Khalil, a Saudi businessman, were used for many trades, with loss-making transactions being switched to BCCI's own account.

"The treasury department did not have any separate books at all," Mr Akbar says now. "It all had to go through the settlements department. There were no undisclosed accounts in my knowledge."

Mr Akbar said he had known Mr Khalil since 1977. Mr Khalil had done large amounts of business with BCCI's treasury division through discretionary managed accounts, and made substantial profits, he said. Mr Akbar denied that those accounts had been used improperly.

A further Price Waterhouse allegation contested by Mr Akbar is that dealings between BCCI and Capcom – a broker set up at his instigation, but in which he had no financial involvement until after he had left the bank – were not truly independent. Capcom, owned largely by three of BCCI's own shareholders, handled roughly half of BCCI's trades between October 1985 and May 1986, he says – but the commissions paid were less than those being paid to other brokers at the time.

Mr Akbar, who still lives at the north London home he lived in before being sentenced for money laundering, is bitter. He claims he has been left wrongly to carry the blame for many of BCCI's troubles, and was not given the chance to respond to any of the allegations made about him.

Price Waterhouse's report was completed without reference to him – which the auditors themselves point to. "They are telling the whole world I am the culprit. Even now, they haven't contacted me. Nor did the bank's management contact me. Why didn't any ask me? Everyone wants to make me a scapegoat."

Lydia van der Meer

Syed Ziauddin Ali Akbar: alleged to have blackmailed his former employer for $32m

CAYMAN ISLANDS

Governor to seek winding-up order

By Bernard Simon in Toronto

THE GOVERNOR of the Cayman Islands has given notice that he will seek the full winding-up of BCCI's extensive operations in the Caribbean tax haven at a court hearing on September 3. No formal objection has yet been lodged to the governor's winding-up petition.

BCCI's controlling shareholders in Abu Dhabi have indicated that they will ask the court for an adjournment of several months to allow them to proceed with a restructuring along the lines of similar efforts at other BCCI arms.

The Cayman operations revolved around three main groups, BCCI (Overseas), Credit and Finance Corporation (CFC), and International Credit and Investment Co (ICIC).

Besides controlling offices in 29 other countries, the Cayman companies are suspected of being a conduit for much of BCCI's fraudulent activity.

The evidence at the court hearing on September 3 will be a report by the provisional liquidators, Deloitte Ross Tohmatsu.

The report is likely to be handed to Mr Alan Scott, the islands' governor, and Mr John Atkinson, the inspector of banks, within the next few weeks. No decision has yet been taken whether to make its contents public.

Mr Brian Smouha, receiver for BCCI's UK and Luxembourg operations, is due to visit the Caymans soon to consult his local counterpart, Mr Ian Wight, on the inquiry into the bank's tangled affairs.

● The US has not asked Pakistan to extradite the founder of BCCI, Mr Agha Hasan Abedi, the Pakistan prime minister, Mr Nawaz Sharif, said yesterday.

Mr Sharif said his government would go by its own laws and regulations if the US made such a request.

Mr Abedi, who is reported to be in ill health, lives in Karachi, capital of the southern province of Sind.

Last month a New York grand jury indicted Mr Abedi and Mr Swaleh Naqvi, who was a senior official at the bank until October 1990, on charges of fraud, theft, and falsifying records.

Manhattan district attorney Mr Robert Morgenthau, who called the alleged scheme "the largest bank fraud in world financial history", said he would seek the extradition of both men.

Mr Sharif said BCCI had no difficulties in Pakistan, where its three branches have been allowed to continue operations.

Scandal that began as a storm in a coffee cup

Richard Donkin on a case of tax evasion that sheds light on some of BCCI's trade finance business

THE CASE of Munther Ismail Bilbeisi, a Jordanian arms dealer and coffee trader indicted on Friday in Florida on charges of tax evasion, is likely to shed new light on some of BCCI's murkier trade finance business.

Mr Bilbeisi, who almost had the whole of the BCCI branch at Boca Raton in Florida exclusively looking after his financial affairs – the other large customer of the branch had strong Mafia connections – has been pursued through the US civil courts by lawyers acting for two Lloyd's agencies: Sturge and Richard Warwick Fielder. The Lloyd's syndicates have been at the forefront of a number of business concerns resisting an attempt by Touche Ross, the provisional liquidators, to obtain court protection against legal proceedings against BCCI in the US.

US law allows such protection for foreign entities. A New York bankruptcy court granted a temporary injunction preventing proceedings to seize BCCI documents in the US more than a week ago.

Lawyers for the Lloyd's agencies and other organisations on Friday argued in a New York bankruptcy court that prevention of court actions to seize BCCI documents might lead to vital records being destroyed or removed from the US. The court has indicated that the Lloyd's syndicates will be able to continue their proceedings.

The Bilbeisi case is one of the most intriguing of those in the BCCI scandal. It goes back to 1986, when Mr Bilbeisi filed a claim against Lloyd's for losses sustained in trading coffee. The story he told Lloyd's was that 12,000 bags of green coffee beans, each bag weighing 150 pounds, had been switched in the warehouse where they were being stored for inferior coffee beans, leading to a $4m loss on the subsequent coffee deal.

Mr Bilbeisi was well aware of insurers' expections of a prompt notification of loss. Only three years earlier he had called his insurers on his mobile telephone the minute he discovered a $300 hub cap had fallen off a wheel of his Rolls Royce. It took him 10 months, however, to tell the insurers of the coffee switch. A few months later he filed another claim for more than $2m, this time, he said, after a burglar had entered his heavily guarded home through a window 3ft by 2ft, avoided triggering alarms, and made off with a Sung dynasty vase and 20 prayer rugs.

The Lloyd's syndicates refused to pay the claims and decided to investigate his dealings. The investigation was largely carried out by Mr James Dougherty, a Miami lawyer, who says he has found evidence that Mr Bilbeisi had been engaged in a long-running coffee-smuggling venture assisted by BCCI.

A Miami federal Grand Jury indicted Florida businessman Mr Munther Bilbeisi on conspiracy and tax evasion charges connected to an alleged coffee smuggling enterprise he ran with the assistance of BCCI.

The indictments allege that Mr Bilbeisi evaded almost $850,000 in income tax between 1984 and 1987. They also state that his company, Coffee Inc. filed false returns reporting net operating losses of about $1m for 1984 and 1985 when, in fact, the company had earned $2.8m in taxable income during those years.

The indictment names Mr Bilbeisi as a "key customer" of the BCCI Boca Raton branch which held his company account. It says that from 1984 Coffee Inc. made substantial profits from the sale of imported coffee, some of which was smuggled into the US to evade coffee quotas. According to the indictment, resulting from an investigation by the Internal Revenue Service, he generated a loss on paper by overstating his coffee purchases against sales on in his books. Mr Bilbeisi is believed to be living in Jordan.

According to Mr Dougherty, between 1983 and 1985 more than $105m in international letters of credit was issued by the BCCI Miami agency to allow one of Mr Bilbeisi's companies to buy central American coffee, purportedly for the Middle East. About $34m worth of those were converted into firm deals.

In fact, it is alleged, much of the coffee was smuggled into the US. At the time the International Coffee Organisation (ICO) was operating a quota system for coffee, which is the world's most widely traded commodity after petroleum. Prices had fallen during the early 1980s to such an extent that some farmers were dumping their crops in the sea. The ICO introduced a two-tier coffee-price structure to maintain prices for the poorer coffee producers. So-called quota nations, such as the US, were required to pay a higher price for their coffee than non-quota nations designated by the ICO.

The insurance investigators say that in that highly regulated atmosphere, Mr Bilbeisi, with the help of BCCI letters of credit and false bills of lading, was able to smuggle coffee bought at non-quota prices into the US, where it fetched a premium price until the quotas were taken off in February 1987.

Mr Jack Blum, a Washington-based lawyer who began investigating BCCI several years ago when he worked as a special counsel for Democratic Senator John Kerry's Senate Committee on Foreign Relations, maintains that the way BCCI used letters of credit in the Bilbeisi case is typical of how they operated much of their trade-related finance. Mr Blum said: "One of the things that strikes me about BCCI's trade-related business is that most of the main banks refused to take their paper . . . Instead of charging a half or a quarter point on the letters of credit they were charging eight points or as much as 12 in some cases. It seems to me that much of that high-priced LC business was supporting smuggling activities or the movement of illicit goods."

The civil action involving Lloyd's and Mr Bilbeisi might drag on for another 18 months, but lawyers have found that they may be able to obtain a summary judgment against him on a matter of law. The legal point arises over the validity of the insurance, given Mr Bilbeisi's failure to declare his work as arms dealer. The insurers say they would regard arms dealing as material to an underwritten risk.

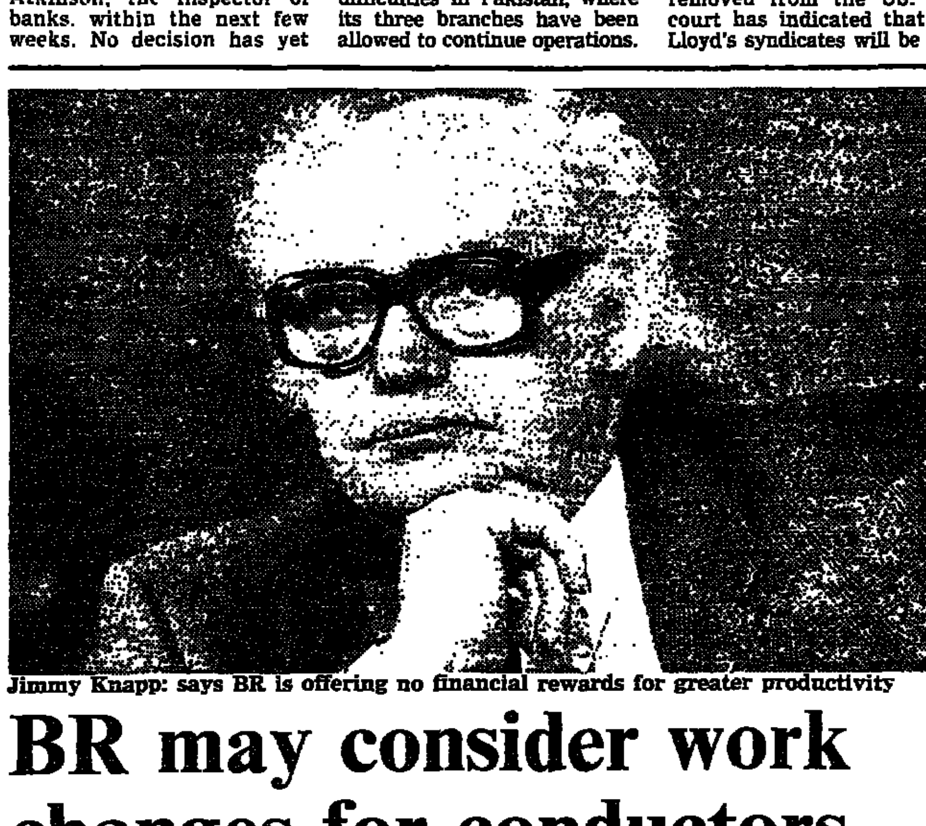
The arms deals deals go as far back as 1969, when Mr Bilbeisi sold guns to El Salvador during the "Soccer War" with Honduras.

More recently, in 1985 he attempted to sell 10 F5 jet fighters and 18 Sikorsky S76 helicopters from Jordan to Guatemala.

Documents obtained by Mr Dougherty show that Mr Bilbeisi was trusted by customers as an intermediary in arms deals with Jordan because of his connections to the Jordanian royal family. A niece of Mr Bilbeisi is married to Zai Bin Shaker, the chief of staff of the Jordanian armed forces who is a cousin of King Hussein.

Mr Bilbeisi also has family connections with the Jordanian government. Mr Najib Bilbeisi, his brother, is an under-secretary at the foreign ministry. Certainly Mr Bilbeisi appears to have enjoyed a special relationship with the Jordanian military. In a letter to a Guatemalan general in the possession of the lawyers, Mr Bilbeisi's Mura International Company claims to be "exclusive representatives of the Jordanian armed forces for the sale of military equipment".

Document seizures and the testimony of a former employee of Mr Bilbeisi have turned up records of payments to BCCI officials apparently in return for assisting his companies. Mr Dougherty says he knows of records that will demonstrate to a greater extent the scope of Mr Bilbeisi's and BCCI's involvement in the international arms trade. He said: "It is imperative that we are allowed to see these documents before someone removes them. The worldwide move against BCCI vindicated the stance taken by the Lloyd's syndicates in this case."



Jimmy Knapp: says BR is offering no financial rewards for greater productivity

BR may consider work changes for conductors

By Michael Smith, Labour Correspondent

BRITISH RAIL appears to be considering introducing a radical change in working arrangements for senior conductors, in spite of a rejection of the measure by RMT, the largest rail union.

The proposed deal would increase basic pay but decrease the opportunities for overtime.

It would require the senior conductors to work on Sundays as part of their normal working week and on weekdays it would increase the maximum rostering period.

A similar proposal for BR's signals and telecommunications staff was rejected after union ballots earlier this year. However, BR said it has subsequently been accepted on an individual basis by 85 per cent of the 7,800 workers involved.

BR said yesterday it would be writing to the 1,000 senior conductors to gauge their reaction to the new offer. It believed there was general support for the proposals but RMT had not put the deal to a ballot.

Through the restructuring plan for senior conductors, BR wants to reduce the minimum rostering period from 6½ hours to seven hours but increase the maximum from nine hours to nine hours 55 minutes. The Sunday maximum would be 10 hour 55 minutes.

Mr Jimmy Knapp, general secretary of RMT, said BR was after much greater flexibility and productivity but it was offering no significant financial rewards.

RMT says longer increasing daily rostered hours would put greater strain on senior conductors.

The ultimate consequences, the union claims, would be loss of jobs and closure of depots.

BR is trying to reduce working hours for employees throughout the organisation. Plans were already in hand to do so in the late 1980s but they were given impetus when the Hidden report into the 1988 Clapham rail disaster criticised excessive overtime.

The organisation said yesterday it wanted to get average hours for senior conductors down from more than 45 to about 42.

If the measure was brought in, it would lead to an increase in the pay bill, although BR could not say how much by.

Separately, RMT is resisting BR plans to introduce performance-related pay. It says individual assessment of senior conductors would be open to management abuse.

Regulations on truancy 'ineffective'

By Andrew Adonis

GOVERNMENT regulations intended to combat truancy in schools were condemned as ineffective yesterday by one of the largest teachers unions.

The 135,000-strong Assistant Masters and Mistresses Association said loose definitions of what constituted "unauthorised absence" from school could render comparisons between schools' truancy levels "almost meaningless".

Under regulations due to take effect in England and Wales at the start of the next school term, school registers will have to distinguish between "authorised" and "unauthorised" absence of pupils.

From next year, school prospectuses and annual reports will have to include levels of unauthorised absence.

Publication of truancy levels is among the proposals highlighted in the government's Citizens' Charter. Schools will also have to publish their public test and exam results and summaries of inspectors' reports. The maximum fine for parents found guilty of failing to ensure their children attend school is also to rise, from £400 to £1,000.

Recent studies suggest that in 7 per cent of schools nationally, and 12 per cent in inner cities, a fifth or more of final-year pupils have truancy records. Reports by Her Majesty's Inspectorate indicate that daily pupil attendance at secondary schools averages about 90 per cent.

However, Amma fears that the regulations are too loosely defined. In particular, they do not specify the exceptional circumstances that allow a school to grant permission for a parent to take a child away on holiday for more than two weeks during the school term.

Variation in directors' pay rises

By Andrew Adonis

PAY INCREASES for Britain's top directors have varied widely in the past year, with no clear link between changes in salary and company performance, according to a report published today.

The median increase in total emoluments for top directors' is 14.2 per cent, compared to 24.2 per cent last year, according to the analysis of highest paid directors' salaries in 77 of the FT-SE's 100 companies by the Incomes Data Services research group.

Total emoluments for the 77 average £415,049, ranging from £1,530,951 (Lonrho) to £96,000 (Anglian Water).

A quarter (19) of the top directors suffered cuts in remuneration, while almost a third (23) gained increases of 20 per cent or more.

"There is no discernible relationship between company performance and remuneration increases," the report concludes.

Its survey found 12 per cent of directors receiving salary increases in spite of two successive years of negative growth in earnings per share, and 8 per cent experiencing earnings cuts in spite of two successive years of growth in earnings per share.

Sir Ian MacLaurin, chairman of Tesco, received the highest increase – 329 per cent, taking his total remuneration to £1,482,000. The increase, based on three years' performance, represents a 56 per cent rise for each of the past three years, whereas Tesco's earnings per share grew annually by 20 per cent over the same period.

Most large UK companies pay bonuses to top directors. According to a separate survey by New Bridge Street Consultants, two thirds claim to use earnings per share as the main performance measure. Half adopt pre-tax profits; only a quarter measure bonuses against individual performance.

Most companies cap bonus payments at about half of basic salary, with 90 per cent setting bonus maxima at between 20 and 60 per cent of basic salary. Typically, share option schemes are part of the remuneration package.

IDS Top Pay Unit Review 126, 193 St John St, London EC1V 4LS.

Mixed response from Tecs to work option schemes

By Lisa Wood, Labour Staff

THE RESPONSE by the 82 Training and Enterprise Councils in England and Wales to the government's proposed £340m temporary work option has been patchy.

Tecs were invited by the Department of Employment to run the Employment Action (EA) scheme and the closing date for them to make statements of their intention to proceed was Friday.

The government's intention was that the scheme, devised in response to rising unemployment, would be in operation by the autumn.

Tecs greeted the scheme when it was announced in June with some caution because it is intended to provide work experience, not training.

Two Tecs, Leeds and Sheffield, have said they will not run EA. Mr John Hartley, chief executive of Leeds Tec, said: "Our board felt that at this stage in our development, with the Tec only starting operations last October, the scheme would be a distraction from our main priority, which is training and improving the skills of the people of Leeds."

Other Tecs, including Birmingham and Bradford, have still not committed themselves, while several others have heavily qualified their applications.

EMPLOYMENT

Mr Richard Guy, chief executive of South and East Cheshire Tec, said his Tec – as, he believed, others – had laid down sets of principles they wanted to adhere to in running the scheme. His Tec, for example, wanted the scheme to remain voluntary, with work experience being of high quality.

It is understood that many Tecs have applied only for a small number of places. That might mean that applications may not add up to the 30,000 places the government has said it will fund this year at a cost of £110m. In 1992-93, it plans 60,000 places costing £230m.

If Tecs fail to provide all the places, the government may ask the Employment Services, its department which runs Jobclubs and non-training options, to run Employment Action.

The Department of Employment said yesterday: "Seventy Tecs have responded to the offer to run the temporary work option. The vast majority have said they are interested in being involved in some way. Intensive negotiations will now take place."

Mr Peter Ashby, of Full Employment UK, which is doing consultancy work for Tecs on the scheme said: "At the moment, take-up of the scheme by Tecs is alarmingly patchy, the reluctance of some of the largest Tecs to commit themselves is worrying."

Action plea for London universities

UNIONS representing staff employed at London's Universities have called for a general improvement in working conditions.

The unions – which include AUT, Nalgo, MSF, and NUPE, representing academic, maintenance and cleaning staff – say the universities, which are important employers within the capital, suffer from several drawbacks.

Among them, they claim, are health and safety regulations not being implemented, putting staff, students and the public at risk; broken or unmaintained equipment; and staff having to pay for supplies out of their own pockets.

In addition, the unions point to low rates of pay and say the high cost of living in London is handicapping staff and students alike.

They are demanding a meeting with MPs to highlight the financial crisis at London's universities and to obtain a better deal in funding decisions in the autumn.

Brokers may have to put up bank guarantees

By Richard Waters

STOCKBROKING firms are likely to face significant extra costs as a result of proposed changes to London's system for settling share transactions which are due to be published later this month.

The changes are intended to take the risk out of the current settlement system, and are part of the transition to Taurus, the automated settlement system due to be launched next May.

To bring greater certainty to share bargains, the London Stock Exchange is to propose that brokers put up bank guarantees to honour bargains that they have undertaken on behalf of clients. The guarantees will be for all the purchases they undertake, and will not be set off against sales on behalf of customers.

Some brokers claim that the changes, which will force them to take out bank guarantees for the first time to back their trading, will add significantly to their costs and further add to dealing commissions after Taurus is introduced.

Mr John Watson, Taurus project director at the Stock Exchange, said that proposals had been produced after "preliminary and background" talks with clearing banks, which up to now have themselves potentially been liable for failed share transactions.

"The problem with the present system is that when cash and shares are exchanged, either side can subsequently be unwound," he said. "Effectively, the banks are standing behind their clients."

The proposed changes are due to be published for consultation before coming into effect. However, it seems certain that brokers will have to bear the cost of covering the risk, rather than the banks themselves or the exchange.

Shifting this liability onto brokers will add to costs at a time when many are already complaining about the burden of shifting to Taurus.

Stockbrokers will also have to carry the cost of the proposed new compensation fund for Taurus, which will have a ceiling of £100m a year. Mr John Redwood, corporate affairs minister, had asked for a $1bn scheme but reduced his demand when the exchange said it was unlikely to be able to get insurance cover for more than £50m.

Mr Watson said it was too early to say how much of the scheme could be insured, but that initial indications suggested that the exchange may be able to obtain cover for the entire £100m.

Pension funds find popularity in performance-based fees

By Barry Riley

A RAPID increase in the popularity of performance-based investment management fees is indicated by the latest annual survey of UK pension funds by Greenwich Associates, a US-based firm of consultants.

As many as 31 per cent of the biggest funds (over £50m) are now employing at least one fund manager on a performance-related basis. Another 10 per cent plan to establish performance-related contracts over the next year.

Some of these arrangements may relate to only small portions of the total funds. However, such contracts have proved more popular than in the US, where about 15 per cent of pension plans are thought to use managers on a performance-related fee basis.

An important reason may be that management fees tend to be much lower in Britain than in the US, so that managers see the performance link as a valuable method of improving their remuneration.

Overall, fees paid to external investment managers in the UK crept up from 0.195 per cent of portfolio values in 1990 to 0.212 per cent this year, according to information gathered in April and May. This confirms the upward trend: in 1988 the figure was only 0.186 per cent.

The increase may reflect a rise in the demand for specialist managers, which were used by 44 per cent of funds this year compared with 41 per cent last year. Another 7 per cent of pension schemes have plans to appoint external specialists, especially for overseas investments, where 25 per cent of funds now use specialty managers.

Labour will 'extend consumer protection'

A LABOUR government will table legislation early in its first session of parliament to enhance consumer protection against public sector and newly-privatised industries, an official said yesterday writes Ivo Dawnay.

Among the measures would be powers to penalise those companies paying higher-than-justified executive salaries by restricting their rights to raise prices. But the party also used the eve of the issue of a new tranche of BT shares to repeat that it would make no attempt to take back a majority shareholding into public ownership if distribution of the new equity is completed by the time it takes office.

Emphasising the point yesterday, a senior party official insisted that such a move would be a fruitless use of scant public resources. "The money would be much better spent on public services like the health service, education and transport," he said.

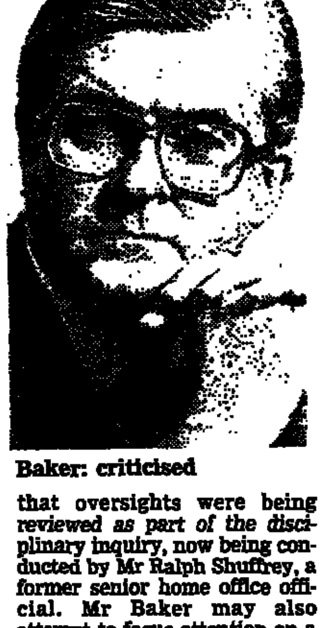
In an effort to contrast Labour's policy with that of the government, the official underlined that, despite the "Citizens' Charter" initiative, the Tories had done little or nothing to improve consumers' rights over the newly privatised industries.

In place of higher profits, Labour would insist on broader scope for consumer compensation schemes and more resources being dedicated to research and development.

Baker set to answer critics over jailbreak

By Ivo Dawnay, Political Correspondent

MR KENNETH Baker, the home secretary, will this week try to end continued criticism of his handling of the escape of two IRA suspects from Brixton jail, south London, early last month by answering the Labour party's charges that some responsibility for the breakout lies with him.



Baker: criticised

Last Friday, Mr Roy Hattersley, the deputy Labour leader, delivered a new letter to the home office demanding explanations for alleged security failures that, he claimed, owed strictly to ministerial inaction.

Among the key issues were questions on why action was not taken to remove high-risk Category A prisoners from Brixton despite a report urging the move a year ago.

The letter also asked why security improvements demanded by the prison authorities were not met, and how no significant steps were taken to reduce overcrowding.

Mr Baker, who is expected to reply early this week, is likely to repeat his assessment, endorsed by a report into the breakout that it came as a consequence of "operational" failures and not ministerial oversights.

On the other questions, Home Office officials last week said that it was lack of alternative prison space that forced the continued use of Brixton – a fact now being rectified by the accelerated opening of the new Belmarsh jail in south London.

They also reported that new security measures were being implemented at Brixton and that oversights were being reviewed as part of the disciplinary inquiry, now being conducted by Mr Ralph Shuffrey, a former senior home office official. Mr Baker may also attempt to focus attention on a new review of prison management by naming the business figure due to head the investigation.

So far, Mr Hattersley has stopped short of calling for Mr Baker's resignation claiming the issue of prison security is more important than that of a minister's career.

At the weekend, the Labour deputy leader argued that Mr Baker's avoidance of the issues "cast serious doubts" on his fitness as home secretary.

Commercial vehicle sales slip

By Kevin Done, Motor Industry Correspondent

SALES of new commercial vehicles in July were 13 per cent lower than a year ago, the smallest monthly decline for 16 months.

Commercial vehicle sales have been falling for the last 22 months and totalled 9,964 in July compared with 11,453 a year ago according to figures from the Society of Motor Manufacturers and Traders.

The month of July is the smallest new vehicle sales month of the year, however, as prospective buyers wait for the change of registration number prefix in August.

In addition the July figures have been distorted by the registration during the month of large fleet orders for vans previously won by Ford from British Telecom and the Post Office. The motor industry is still very concerned at the "deep and extremely long-lived recession" in the commercial vehicle sector according to the Retail Motor Industry Federation.

Mr Mike Mudie, chairman of the federation's national truck committee, has written to Mr Norman Lamont, chancellor of the exchequer, warning that "we cannot yet see anything which would encourage us to believe that the apparently ever-downward trend will not continue for the foreseeable future". The federation urged the chancellor to take "urgent steps to restore business and consumer confidence."

Mr Mudie warned that unless commercial vehicle sales returned soon to more acceptable levels many of the more than one thousand commercial vehicle retailers in the UK would "no longer be able to continue to bear the heavy burden of losses and will cease to trade."

Sales of trucks, the sector hardest hit by the recession, were 35.2 per cent lower in July at 1,380. In the first seven months of the year truck sales have plunged by 38.2 per cent.

Sales of trucks (above 3.5 tonnes) in the first six months this year fell by 55.6 per cent compared with the first half of 1989. Total sales of commercial vehicles in the first seven months at 122,161 were 30.6 per cent lower than a year ago and have fallen by 41.9 per cent in two years.

Aberdeen vies to be oil capital of Europe

James Buxton reports that London civil servants are resisting relocation in Scotland

ABERDEEN'S campaign to live up to its publicity and become the oil capital of Europe, rather than a northern outpost providing "pork and beans" for roustabouts offshore, won a fillip last week from a cross-party group of MPs.

The House of Commons energy committee appeared to side with Scottish Enterprise, the economic development body, on the issue of moving the Department of Energy's oil Exploration, Appraisal and Development Unit from London to Aberdeen.

MPs seemed unconvinced by the department's argument that this would prove too expensive and called on the Treasury to commission an independent inquiry into the move. Mr Crawford Beveridge, chief executive of Scottish Enterprise, expressed confidence that the inquiry would find in favour of relocation.

If the EADU does move north it will help transform the city's "pork and beans" image memorably identified by Mr John d'Ancona, a senior civil servant with the energy department, in unguarded remarks two years ago.

He meant by this that Aberdeen was the place where pork and beans, supposedly the staple diet of the roustabout, were shipped out to the oil platforms and drilling rigs, along with other supplies. Decisions on the oil industry were taken in London, which he said was the real "oil capital of Europe".

Mr Ian Wood, doyen of the Aberdeen business community and chairman of the Wood Group, Britain's largest indigenous offshore supply company, said: "I welcomed John d'Ancona's remarks because what he said was true."

Mr Wood is one the leaders of a campaign to make Aberdeen the real oil capital of Europe. The secret, he and others believe, is to move a small number of important civil servants from London to Aberdeen. The consequence would be the creation of "critical mass" in the oil industry in Aberdeen, enabling it to conquer foreign markets for oilfield supplies where Britain's penetration has so far been small.

Aberdeen harbour: oil companies have offices here from which operations are run

The EADU has only 77 civil servants. They study and approve oil company plans for exploration and development of North Sea oilfields.

Companies developing new fields need to be in constant touch with the EADU, and therefore keep staff who plan exploration and development in London.

"The UK oil industry is fragmented," said Mr Mike Fleming of Scottish Enterprise, "with decision making in London and operational activities in Aberdeen".

Oil companies have large offices in Aberdeen from which they run oilfield operations. Helicopters and supply ships go out to the platforms from the airport and harbour. On industrial estates around the city small and medium-sized companies make and service oilfield equipment. But few companies export on any scale. Britain has only 5 per cent of the world oil and gas field supply market.

Scottish Enterprise believes that if the EADU moved to Aberdeen the oil companies would transfer many of their London-based staff there in order to keep in touch with it. Design engineering companies would follow them. About 1,000 jobs would move to Aberdeen, SE said.

Companies from other countries would then come to Aberdeen to seek its skills. Projects to export services and equipment would gain momentum. The UK's share of the world offshore supply market could double, bringing an extra £350m worth of business.

> **People in Scotland believe that the Energy Department simply does not wish to move important staff to Aberdeen. Mr Crawford Beveridge, chief executive of Scottish Enterprise, acknowledged to a Commons Committee that: "It's always painful taking decisions that affect people's lives."**

SE calculates that could be worth 15,000 jobs in the UK, most of them in Scotland, compared with the 90,000 the offshore industry employs at present.

Mr Wood said: "This is a last ditch bid to make up for the errors of past years and become a world player. If we can't persuade the government to take this step now, we're not going to succeed in 10 years' time."

But not everyone agrees. "The argument is absolutely ludicrous," said Mr Tony Mackay, an economic consultant in Inverness who follows the oil industry. "There is a perfectly good case for moving the EADU to Aberdeen on regional policy grounds. But SE is ruining it with all the talk of 15,000 jobs. Where are they going to come from?"

He argues that there are relatively few remaining parts of the world where oil industries have to be developed. SE, he says, has not proved the link between ending fragmentation and creating a springboard for expansion. He adds that oil companies have reasons for being in London unconnected with the North Sea. "Shell and British Petroleum run their overseas operations from London. Some US oil companies serve Europe, Africa and the Middle East from London."

Mr Bob Middleton, convener of Grampian Regional Council, is unmoved. "I am much more interested in developing non-oil activities in Grampian," he said. "The oil industry can look after itself."

The battle to move the EADU has been going on for two years, without success. Mr Colin Moynihan, an energy minister, said in May that the EADU needed to be near parliament and the rest of Whitehall. The Energy department has recently argued that the additional costs of operating from Aberdeen would outweigh the benefits.

SE has challenged that: the department, it said, had calculated the costs on an unfavourable, annual basis whereas the Treasury formula requires such calculations to be made over 20 years. SE believes the government would save £7m and the oil companies £30m if they both decamped.

People in Scotland believe that the Energy department simply does not wish to move important staff to Aberdeen. Mr Crawford Beveridge, chief executive of SE, acknowledged to the Commons committee that: "It's always painful taking decisions that affect people's lives."

Oil companies, some of which have periodically moved staff back and forth between Aberdeen and London as their perceptions of the best location change, are reluctant to speak publicly about the EADU issue. That, oil industry watchers in Aberdeen suspect, is because their projects depend so heavily on the EADU that they do not wish to incur civil service displeasure by supporting something so disdainful to them.

Meanwhile, Aberdeen welcomes the fact that the offshore division of the Health and Safety Executive, set up in the wake of the Cullen report on the 1988 Piper Alpha disaster to improve offshore safety, is to be in Aberdeen, creating several hundred jobs.

But it is only a branch office: the headquarters will be in London.

UK NEWS

Further construction job losses ahead, survey says

By Andrew Taylor, Construction Correspondent

THE RECESSION in the construction industry shows no sign of slackening and more job losses are likely, according to yet another gloomy survey of the industry's prospects, published today.

The latest jobs warning, this time from civil engineering companies, comes exactly a week after the Building Employers Confederation warned that job losses since the middle of 1989 were expected to rise to a quarter of a million by next summer.

Mr Randal Bale, chairman of the Federation of Civil Engineering Contractors, said: "Sad to say, the last three months have seen a further deterioration in the situation of firms in civil engineering. One particularly significant indicator of this is the growth in the number of firms which are employing fewer engineers, surveyors and other staff.

"Firms will always try to avoid shedding well qualified staff or breaking up project teams but now this deepening recession is clearly affecting key personnel."

More than half the 162 companies questioned by the federation last month said they were employing fewer workers than 12 months ago. Only 9 per cent said they had taken on more workers.

Mr Bale said that 49 per cent of companies, which between them accounted for £8bn of construction work last year, expected workloads to fall further during the next 12 months.

As a result, 52 per cent expected to be employing fewer workers next summer.

One area of growth has been in orders from water companies, which have stepped up capital investment since privatisation. That, however, was "not enough to compensate for the slowdown in other markets," the federation said.

Two thirds of companies said that order books were lower than 12 months ago. Competition for work has also forced down margins, with 90 per cent of companies reporting lower margins than in July last year.

A recent compilation of forecasts of construction output for 14 European countries showed that only Finland had a worse outlook than Britain over the next two years.

EC liberalises pension rules

By Norma Cohen, Investments Correspondent

A NEW European Community directive on pension funds may prompt the development of a UK-style pension fund industry in continental Europe, according to the Bank of England.

In a paper prepared for its August quarterly bulletin, the Bank says that if countries in continental Europe did follow the UK's lead, the sums available for investment would be sizeable.

The Bank notes that demographic pressures on so-called "pay-as-you-go" schemes, where workers' funds pay for those who are already in retirement, are likely to force governments to encourage the development of private pensions as an alternative to social security.

Private pensions may be encouraged by changes in taxation, legislation on the nature of benefits, and by allowing employees to opt out of the state scheme as the UK has done.

Meanwhile, the Bank notes, the ability of a country to develop a large pension fund sector may depend on the depth of its internal capital markets.

It says: "Trading and risk pooling as performed by pension funds are more efficiently undertaken in the capital markets, where transaction costs are lower, although these need not be domestic markets if there are no exchange controls and funds can invest in developed capital markets elsewhere."

The new EC rules will have the effect of lifting restrictions on investments outside the home country, and pension fund growth may be particularly keen in countries such as Germany and Japan.

Steep fall found in company profits

By Jim McCallum

THE FALL in UK company profitability last year was as steep as in the recessions of 1974-75 and 1980-81, according to a study published today by the Bank of England in advance of its latest quarterly bulletin.

Even so, the overall level of profits at the end of 1990 remained above the low points of those years.

Profitability for all industrial and commercial companies fell from its peak of 10¼ per cent in the fourth quarter of 1988 to 6 per cent in the first quarter of 1990.

Gross trading profits of non-oil companies fell by 2½ per cent last year compared with a rise of 2½ per cent in 1989. The position worsened in the second half of last year, with profits down 2 per cent and down by a further 5 per cent in the first quarter of 1991, if the newly privatised electricity distribution companies are omitted.

The fall in gross trading profits was more than offset by increases in rent and non-trading income. Overall, total income rose by 4 per cent compared with an increase of 10 per cent in 1989. In the first quarter of this year, income fell by 9 per cent.

Companies' interest payments rose sharply last year as interest rates increased, which in turn pushed up indebtedness. Net gearing increased to 33 per cent in the fourth quarter of 1990, a level higher than that of either of the previous two recessions.

Small businesses suffering output fall

DEMAND AND output have fallen again for smaller manufacturing companies in the past four months, according to the Confederation of British Industry's smaller firms economic report, published today. Charles Batchelor writes.

Business confidence among the owners of smaller companies has also declined further, Mr Tom O'Connor, chairman of the CBI's Smaller Firms Council, said. Signs, expected at the time of the last survey, in April, that the downturn was slackening, had failed to materialise.

CBI Publications Sales, Centre Point, 103 New Oxford St, London WC1A 1DU. £5 to CBI members, £10 to non-members.

Fund managers optimistic

INSTITUTIONAL investors are more optimistic about prospects for the UK equities markets and the economy, according to the latest survey of managers conducted by Smith New Court and the Gallup organisation.

The report found that 18 per cent of managers are bullish about the FT-SE performance over the next three months.

Support for recovery hopes

THE government's belief that there will be an economic recovery later this year received qualified support today in a report from Oxford Economic Forecasting, a private forecasting consultant. The report forecasts a modest revival in consumer confidence and manufacturing output as lower interest rates take effect.

UK Economic Prospects: August 1991. Oxford Economic Forecasting, Templeton College, Kennington, Oxford.

Home loans fall

APPLICATIONS for home loans fell by 5.1 per cent in June 1991 compared with the June last year, according to Infolink, the credit information agency.

Hazards in a hint of recovery

Vanessa Houlder on mixed signs for the commercial property sector

AFTER one of the most turbulent years experienced by the commercial property market, there are signs that suggest that the worst of its slide is over.

The rate of decline of property values has started to slow, although the downturn is more likely to be replaced by stagnation than by a convincing recovery.

It is unlikely that any UK industry faces a slower climb out of the recession. The factors that tipped the property industry into its trough – chiefly surplus of supply – will not disappear for months, if not years, after the rest of the economy starts to recover.

Nowhere will the weakness last longer than in London, where the rash offices springing up on the skyline has created the city's worst property glut. From the giant Canary Wharf in the east to a plethora of small, empty office suites in the west, London has more than 29m sq ft of empty offices.

One such is Thomas More Square, a steel and glass construction just east of the Tower of London, which offers 550,000 sq of space, of which just 12 per cent is let. Ms Joanna Embling of Healey & Baker, who is marketing the scheme, put a brave face on things. She says: "It is hard work but there are deals to be done. I would have been more pessimistic a couple of months ago."

The odds are against her. The City vacancy rate is more than 18 per cent and there is three times as much space available to let as at any time over the past 25 years.

Rents have fallen so far – by 40 per cent in some cases – that tenants are often unable to find anyone to take on their existing leases.

The shortage of tenants, combined with high interest rates and the absence of investors, has been devastating for development companies.

Mr Trevor Osborne, president of the British Property Federation, has described the past year as "the most difficult trading period for the property industry since the Second World War".

Mr Osborne blames the government's policies for the industry's boom and bust. Yet alongside the damage inflicted by high interest rates and the evaporation of tenant demand, the industry has difficulties of its own making.

Trevor Humphries

To let: Thomas More Square, east London, of which only 12 per cent has yet been taken

Overconfidence in the late 1980s led developers to overborrow and overbuild. London proved vulnerable because of the expansion of financial services after Big Bang, the relaxation of planning controls, and tenants' dissatisfaction with 1960s offices that could not cope with computer cables or airconditioning.

The keenness of banks and investors to invest in one of Europe's leading cities also fuelled the bonanza. For example, Skanska, the Swedish developer behind Thomas More Square, said its scheme was "an international expression of extreme confidence in the commercial future of London, Europe's premier location".

London is not alone in having a surplus of office space. The trend for business parks, which was fuelled by the relaxation of planning rules in the mid 1980s, has resulted in a glut.

Overall, office rents across the country have fallen by 13 per cent over the past year, according to Richard Ellis, a firm of chartered surveyors.

The national picture, however, shows large variations. Areas such as the Midlands, where relatively little building took place, show an increase in office rents of about 8 per cent over the past six months, according to Healey & Baker, chartered surveyors. East Anglia had the biggest rise – 10.9 per cent.

The fall in office rents dwarfs that of other sectors. That is little consolation for the retail property industry, which is suffering its first fall in open market rents (rents for property with vacant possession) for 25 years. Retail rents have dropped in London, the south-east and the north-west of England, while rents are rising in Scotland and Wales.

The strongest part of the commercial property market is industrial property. Even duringthe recession, rents have increased by an average of about 3 per cent over the past year, according to Richard Ellis. Its performance can be attributed to a relative lack of investment in new industrial buildings in the late 1980s.

The large regional and sector variations in the commercial property market complicates the question of whether the market has reached bottom.

Certainly, the downturn is less dramatic. The earlier and most severe fall in values resulted from the rise in property yields (a yardstick that measures the income-to-value ratio) to unprecedently high values. Yields peaked in May, after which they have marginally edged downwards. That fall has helped to offset the effect of the continuing decline in rents on capital values.

Opinions differ on whether the recovery in yields will be enough to offset continued falls in rents. Mr Greg Nicholson, of Hillier Parker, chartered surveyor, says: "The market, while still sluggish, may have reached the trough of the cycle."

Mr John Atkins of Phillips & Drew disagrees, believing that values will continue to decline, although at a decelerating rate.

Either way, it does not mean the end of the trauma for the property industry. Over the past year, banks have been reluctant to put companies into receivership because the assets would fetch knock-down prices. The trickle of property companies that have gone into receivership might yet become a flood.

LEGAL NOTICES

IN THE MATTER OF ROACH TILLEY GRICE & CO (CYPRUS) LIMITED AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

Notice is hereby given that any creditors of the above-named company which is being voluntarily wound up are required on or before the 12th day of September 1991 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Mr Antony Haji Roussos FCCA of Julia House, 3 Themistocles Dervis Street, PO Box 1612, Nicosia, Cyprus, the liquidator of the said company, and if so required by notice in writing from the said liquidator, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved

Dated this 12th day of August 1991
A Haji Roussos FCCALiquidator

QUALITY CARAVANS LIMITED

Registered number: 867854
Nature of business
Caravan and Leisure Retailers
Trade classification 22
Date of appointment of joint administrative receivers
30 July 1991
Name of person appointing the joint administrative receivers
Hill Samuel Bank Limited
JOHN FREDERICK POWELL and LYN ROBERT BAILEY
Joint Administrative Receivers
(Office holder nos 249 and 6496)

Cork Gully, Abacus House, 32 Friar Lane, Leicester LE1 5RA

Deakin Ceilings Limited

Registered No 1356487
Trading name. Deakin Ceilings Limited
Trade classification 23
Name and address of joint administrative receivers:
David John Stokes and
Anthony James Wood
Cork Gully
1 East Parade
Sheffield S1 2ET

Office holder numbers: 2682 and 2963
Date of appointment: 1 August 1991
Name of appointer: Midland Bank plc

DOCTUS (EUROPE) LIMITED

Registered number: 2326307
Trading name :Doctus Consulting Europe
Nature of business. Management Consultancy
Trade classification: 37
Date of appointment of joint administrative receivers. 29 July 1991
Name of person appointing the joint administrative receivers. Royal Bank of Scotland
CHRISTOPHER JOHN BARLOW, JOHN FREDERICK POWELL and JOHN DAVID HARRISON Joint Administrative Receivers
(Office holder numbers 018,249 and 386)
Cork Gully
43 Temple Row
Birmingham
B2 5JT.

CARAVAN REPAIR AND MAINTENANCE LIMITED

Registered number: 1885711
Trading name: CRAM
Nature of business: Caravan and Leisure Retailers
Trade classification: 46
Date of appointment of joint administrative receivers: 30 July 1991
Name of person appointing the joint administrative receivers: Hill Samuel Bank Limited
JOHN FREDERICK POWELL and LYNN ROBERT BAILEY
(Office holder nos 249 and 6496)
Cork Gully
Abacus House
32 Friar Lane
Leicester LE1 5RA

DOCTUS MANAGEMENT CONSULTANCY LIMITED

Registered number 1718080
Doctus Consulting Europe
Nature of business
Management Consultancy
Trade classification: 37
Date of appointment of joint administrative receivers
29 July 1991
Name of person appointing the joint administrative receivers
Royal Bank of Scotland
CHRISTOPHER JOHN BARLOW, JOHN FREDERICK POWELL and JOHN DAVID HARRISON
Joint Administrative Receivers
(Office holder nos 018,249 and 386)
Cork Gully, 43 Temple Row, Birmingham B2 5JT

Caravan World Limited

Registered No. 1258519
Trading Name. Caravan World Limited
Trade classification: 22
Date of appointment of joint administrative receivers
30 July 1991
Name of person appointing the joint administrative receivers:
Hill Samuel Bank Limited
JOHN FREDERICK POWELL and LYNN ROBERT BAILEY
Joint Administrative Receivers
(Office holder nos 249 and 6496)

PERSONAL

William Keeling considers the challenge of training for black managers in southern Africa

Learning the lessons of racial disharmony

Politicians are not alone in having to come to terms with the changing political landscape in southern Africa. Industry, too, is having to conduct a radical review of its operations and management philosophy to bring it into line with post-colonial and post-apartheid demands.

The pace of reform, however, has been slow. The scale of the problem faced by industry in terms of the racial imbalance within senior management was discussed by representatives of industry, governments and international aid agencies at a recent Industrial Society conference in London on Developing Management Skills in southern Africa.

The mining sector in Zimbabwe provides nearly 45 per cent of export earnings and about 40 per cent of the raw materials used by the manufacturing sector.

But as David Murangari, permanent secretary of the Ministry of Mines in Zimbabwe, told the conference, at the time of independence in 1980 "there were 3 per cent blacks in the engineering category, 20 per cent in the artisans and skilled workers category and none in the middle to higher management category in the whole mining industry".

The training programmes set up by the mining industry in response to the demands of the new government were slow to redress the balance.

By 1984, there were only three black Zimbabweans in higher management in the mining industry compared with 106 whites. As Murangari stressed: "There was still a lack of any concrete attempt by the industry to formulate schemes to train potential managers." Murangari gave his support, however, to a scheme which has proved an exception to the rule.

An elite group of black employees has been appointed to management positions in the mining sector after taking part in a programme organised by the Zimbabwe Technical Management Training Trust (ZTMTT). The trust was created in 1982 and is funded by RTZ Corporation, the international mining group. Of the 54 trainees who have been selected for the programme over the past nine years, 25 are now in senior positions such as underground managers and superintendents. One trainee has become a director of mines for a company in Namibia.

Although funded by RTZ, the trainees have come from all the leading mining companies in the southern African region. Over the past nine years, there have been participants from Zimbabwe, Namibia, Botswana, Zambia and, most recently, South Africa. All have been technical graduates, usually with about four years of postgraduate experience in the industry.

Dale Sibanda (left), a student from Zimbabwe on a City University course, on attachment to the Neves Corvo mine in Portugal

The trainees spend 20 months in Europe on three separate work attachments of three to five months each. When not working with those companies, the trainees attend the City University, in London, on a dedicated MSc course involving various elements from the university's Business School.

The designers of the scheme place special emphasis on the time the trainees spend together as a group at the university. Sir Derek Birkin, RTZ chairman, explains: "It is at the university that we see the initiation of the learning, thinking approach – part of the process of changing the trainees' self-perceptions and persuading them to take control of their own destiny."

The scheme is regarded by the industry and the Zimbabwe government as a success but it is now seeking a new source of funds. The trust has received about £300,000 a year from RTZ which, in line with its original commitment, is planning to withdraw funding from 1993.

But experience has shown that training in general may have to confront different challenges in future.

The scheme has highlighted the deficiencies of in-house training programmes, and the approach to management selection by companies within and outside the mining sector may need to be reviewed.

Comments by two members of the conference panel reflect what is arguably a flawed premise for the creation of training schemes.

- Murangari: "Soon after independence (in Zimbabwe), the country experienced an exodus of skilled white people ... It therefore became imperative that the new government had to embark on a massive educational programme not only to redress the imbalances of the past but also to fill the gaps being created by those who were leaving the country."
- Sir Derek Birkin: "In the southern African context, it has been clear for a good many years now that the shortage of local black technical management in industry would inevitably cause future problems as expatriate sources diminished."

Both statements, in varying degrees, take as a starting point the need to train black employees only as a result of a shortfall in white or expatriate managers. This raises the question of whether blacks are given the opportunity to compete equally for management positions where potential white managers still exist, despite the progress made by those on the training programmes. According to a black delegate at the conference they are not.

While the training schemes, including that of ZTMTT, qualify blacks for management, their white colleagues in many companies are still given preference. Indeed, as the delegate explains: "In South Africa many whites cannot envisage a situation where a black person becomes the boss. Attitudes are still entrenched."

The problem of racism within management was aired at the conference. Jonathan Lawley, director of ZTMTT, told delegates: "Residual attitudes towards the role of racial groups in society go very deep in the regional psyche. Black leadership, particularly leadership in the technical sphere, was until recently unthinkable to many".

Lawley provided another perspective. He spoke of a "black South African with a brilliant degree who told me last year that he would like to come on the trust programme to, quote, 'lose my inferiority complex'."

Delegates were less convinced of the need for programmes to enable some white employees to confront their corresponding "superiority complex". While one delegate explained that white managers of his company in South Africa spent periods living in black townships, another believed that the problem of entrenched racism would crumble of its own accord as black employees climbed the managerial ladder.

Other delegates considered it unlikely, however, that racist values would self-destruct in this manner. The need to educate from the top-down, as well as from the bottom-up, was stressed.

Talking privately during a break in the proceedings, one conference speaker told the story of the appointment of a black branch manager in a South African bank which was primarily staffed by whites.

Not only did the new branch manager receive extensive training for his position, but the white staff also had to undertake a programme to prepare them for having a black as boss.

All the delegates agreed that while the need to overhaul corporate practice was imperative, no simple blueprint for change existed. The challenge is two-fold: to encompass non-racist values and, for South Africa, to shift from the siege mentality of international isolation to dealing competitively with the world at large.

Companies could begin by *following the example of* ZTMTT, they agreed, and adopt a more international dimension to their in-house training schemes. A suggestion of many delegates was that companies should make it possible for potential black managers to gain work experience outside their home country.

Delegates also criticised the poor quality of state education as weakening the foundations of industry. They called for greater co-operation between government and industry in the realm of technical and management training.

As Lynda Chalker, UK Minister for Overseas Development, stressed, southern Africa faces a "colossal task to break the vicious circle of deprivation".

Corporate espionage

Look before it's leaked

Richard Donkin gives advice on preventative action

You are a big company, quoted on London's International Stock Exchange and on the trail of an acquisition. You have singled out the target and begin moving in for the kill. But the day before your dawn raid, the shares of your target company start changing hands and rocket well above your bid price.

You thought you had done everything possible to ensure secrecy. But someone – you will never know who – spilled the beans. The cost can run into millions.

Nick Mann, former head of operations at the stock exchange Insider Dealing Group, has seen it all before.

"I remember one company in the exploration business which planned a rights issue but watched its shares drop sharply near to the discounted issue price just before the issue date. It had to double discount the issue which cost it £25m."

Four years after moulding the stock exchange team which was committed to winkling out insider dealers, Mann has decided that prevention is the best policy for beating the insider.

He says: "I came to the conclusion that it was impossible to track down the most determined and calculating of the insider dealers.

"It is too easy to hide share purchases in Swiss bank accounts using nominee names. The answer is to attack the problem from the other end: crime prevention."

The stock exchange has had some successes against insider dealers but it has been handicapped by legislation which places a high burden of proof on investigators and by courts which have sometimes found difficulty in perceiving insider dealing as criminal.

Leaks about bids or rights issues provide a clear example of the way companies can suffer through losing corporate intelligence – but sometimes the financial damage is less tangible.

Companies can also be damaged by leaks without even realising. Market-makers tend to widen the spread between the bid and offer prices for shares of a leaky company to protect themselves from sudden price fluctuations. The wide spread has the effect of deterring institutions from buying the shares since they do not like shares which have to show a large upward movement before they can be sold at a profit.

Another problem area for quoted companies is the manipulative use of corporate information by the bear raider who starts a rumour simply to force down the share price.

"Bear raiders are often disgruntled ex-board members who are harbouring a grudge. Sometimes they may have grandiose ambitions to take over the company and want to reduce the price," says Mann.

Faced with a bear raider, he says, a company should immediately launch a damage limitation exercise.

Quick response

"There has to be a quick announcement, accompanied by supporting evidence, and analysts and institutions must be pre-warned about the style and the method of the likely mode of transmission of the false announcement.

"The bear raid usually involves two or three separate statements from the raider and companies must respond quickly and clearly."

Mann, who has established a company called NDM Associates based in Farnham, Surrey, to advise companies on how to prevent the loss of corporate intelligence, has drawn up a 10-point plan of action for companies *wanting to stop* information leaking.

He says: "I will tailor-make plans for individual companies but there are general points that could be applied almost everywhere."

- Make announcements speedily.
- Educate all insiders about the dangers of leaks.
- Control and reduce the number of documents in circulation while information is still unpublished.
- Enhance all physical security, taking care over telephone lines and the venues of meetings, beware bugs.
- Take care in conversations with spouses, relatives and friends.
- Reduce the number of insiders brought into the discussions. Too many people tend to be brought in too early. For example, only have one secretary – if there is a need to have a secretary at all.
- Use random codenames for target companies.
- Designate separate roles and set procedures for research and preparatory work in cases of routine corporate intelligence, for example, results and interim figures.
- Create Chinese walls where corporate activity is in progress.
- Operate positive vetting of new and current staff in sensitive positions.

"Some of these points may seem obvious," says Mann, "but I know many companies use codewords related to their target companies. If the target was a Mexican company they might, for example, codename it Taco. That does not leave the clever insider dealer with much work to uncover the name."

Mann believes his experience and career record will be sufficient to convince companies which are sensitive about taking on board a "corporate plumber" to fix the leaks before they occur.

He has been a criminal investigator for 14 years, eight of those with the Inland Revenue specialising in "lump" fraud – one of the most widespread illegal practices within the building industry. He came to the stock exchange from British Telecom's investigation department which looks at internal and external theft and fraud.

Most leaks, he says, tend to be by word of mouth, the inadvertent remark that may be passed on quite innocently to someone who will be prepared to act on it.

But at the same time, he has become aware of an increasingly active number of people engaged in the acquisition of corporate intelligence.

"Although those whose job is to steal information are still responsible for only a small percentage of leaks, companies should not be dismissive of them. I once found 20 stick-pin bugs secreted in a boardroom. There is no law in the UK against theft of information," says Mann.

THE WEEK AHEAD

ECONOMICS

Markets look to the Bundesbank

IT is a busy week for important economic data in the UK, and one which could be crowned by an interest rate rise in Germany on Thursday. The Bundesbank is expected to raise both the discount rate and Lombard rates.

This should discourage the UK government from cutting the level of UK base rates below 11 per cent, and should also keep the FT-SE 100 index from moving above its recent 2,600 peak, as the equity markets digest the implications of a slower, more muted recovery.

Base rates are now thought to be coming down only to 10.5 per cent by year-end, with the next easing perhaps timed to coincide with the Tory party's annual conference in Blackpool in October.

There will be, however, no lack of UK data prompting the markets to hope for one soon. The week has inflation news with both the producer prices indices and the retail prices index.

On the input side, there will be the influence of higher fuel oil prices and food prices, with markets expecting a monthly rise of 0.7 per cent in July.

On the supply-side, glimmers of recovery could be seen in a rise in industrial production, an improvement in productivity and unchanged growth of average earnings.

Further statistics and events, with median market forecasts from MMS international, the financial research company in brackets, include:

Monday: UK, credit business for June (£100m), final retail sales for June (1.1 per cent). Australia, retail trade for June (0.1 per cent). US, June housing completions.

Tuesday: UK, acquisitions and mergers, second quarter, capital issues and redemptions for July, index of output for the production industries (0.1 per cent), manufacturing output (down 0.2 per cent), producer price indices for June (input 0.2 per cent, output 0.1 per cent). US, July retail sales (up 0.3 per cent). Japan, machinery orders for June.

Wednesday: US, July consumer prices index and ex food and energy (both up 0.3 per cent), business inventories for June (down 0.4 per cent), real earnings, August auto sales (up 6.7 per cent). Sweden, July unemployment rate. Japan, revised industrial production for June.

Thursday: Germany, Bundesbank council meeting. Assumption day in Europe, markets closed in seven countries. UK, provisional figures for vehicle production, capital expenditure by manufacturing industries, second quarter provisional, labour market statistics, July unemployment (60,000), June average earnings (8.25 per cent), unit labour costs (11 per cent), financing of the central government borrowing requirement, first half mortgage arrears. US, housing starts (1.06m year to July), money supply, building permits. Australia, 2nd quarter GNP.

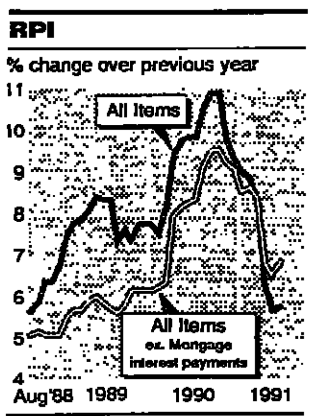
Friday: UK, retail prices index for July (5.5 per cent annual), public sector borrowing requirement for July (down £2.2bn), usable steel production for July. US, merchandise trade balance for June (-$4.5bn), industrial production in July (up 0.3 per cent), capacity utilisation in July (79.4 per cent). Canada, consumer prices index, international trade for June.

During the week: Germany, wholesale prices index (0.4 per cent), current account, trade balance, import prices.

Rachel Johnson

RPI

% change over previous year



RESULTS DUE

HANSON, the UK acquisitive conglomerate, is expected to announce on Wednesday that its pre-tax profits have in the nine months to June have slightly increased from £939m to £963m. The group is reporting its third quarter to June during which profits before tax are thought to have edged up from £369m to around £375m.

Last year's results were boosted by selling off part of Consolidated Gold Fields. Hanson, which has a 2.8 per cent stake in Imperial Chemical Industries, is expected to show that it has been affected by the recession in the UK. However, analysts believe it should be in a position to announce a modest recovery in the US.

General Accident and Royal Insurance are expected to report dismal mid-year results tomorrow and Thursday as the composite insurers' reporting season continues next week. GA's pre-tax losses could rise to £90m compared with £66.2m at the halfway stage last year. Royal could do worse with losses forecast at over £100m compared with £65m in 1990.

Recession-related claims stemming from theft, arson and mortgage default are partially to blame, and competition from domestic and European insurers is reducing the scope for necessary premium increases. Both companies will do well simply to maintain their dividends.

Pearson, the media, oil services and banking group that publishes the Financial Times, is today expected to announce bleak results that fully reflect the depths of the recession in the UK. The City is expecting pre-tax profits of between £42m and £49m compared with last year's first-half figure of £97.9m.

Interim results from Queens Moat Houses on Wednesday should reflect the company's strategy of spreading its hotel portfolio across continental Europe to mitigate against the difficulties in the UK market. Analysts are looking for pre-tax profits in the mid-£30m range, down from just under £40m at the same stage last year, reflecting the difficult times for UK hoteliers.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Avesco, Venture House, Davis Road, Chessington, Surrey, 11.00
CPU Computers, Sherwood Place, Copse Road, St. Johns, Woking, Surrey, 12.00
Faupel Trading, Griggs Hill Road, Thames Ditton, Surrey, 11.00
Hewetson, Forte Crest Hotel, Hull, 12.00
BOARD MEETINGS:
Finals:
Brandon Hire
Howard Holdings
Radiant Metal Finishing
Interims:
Lilleshall
Pearson

■ TOMORROW
Equity Consort Inv. Tst., Five Arrows House, St. Swithin's Lane, E.C., 11.00
Friendly Hotels, New Connaught Rooms, Great Queen Street, W.C., 11.00
Stocklake, Aldermans House, Aldermans Walk, E.C., 3.00
Walker & Staff, Walker House, Boundary Street, E., 3.00
BOARD MEETINGS:
Finals:
ATP Communications
Williamson Tea
Interims:
Expamet Intl.
Forwell
General Accident
Kalon
Manchester Ship Canal
Pacer Systems
Takare

■ WEDNESDAY AUGUST 14
Bimec Inds., Savoy, Strand, W.C., 12.00
Braithwaite, 9, Moorfields Highwalk, E.C., 10.20
Severn Trent, NEC, Birmingham, 11.00
BOARD MEETINGS:
Finals:
Abingworth
Benchmark Group
Heath (Samuel)
Rexmore
Interims:
AAF Investment
Britannic Assurance
CSC Inv. Tst.
Nichols (J.N.) (Vimto)
North Midland Construction
Novo Nordisk
Queens Moat Houses
Ultramar
Ward Holdings

■ THURSDAY AUGUST 15
Burtonwood Brewery, Rake Hall Hotel, Rake Lane, Little Stanney, Chester, 12.00
Channel Tunnel Invs., Chartered Insurance Institute, 20, Aldermanbury, E.C., 3.00
Latham (James) Leeside Wharf, Clapton, E., 12.30
Security Archives, HMS Belfast, Morgans Lane, Tooley Street, S.E., 12.30
Somic, Clifton Arms Hotel, West Beach, Lytham, 12.00
Symonds Engineering, Royal Chace Hotel, The Ridgeway, Enfield, Middlesex, 11.30
TR Technology, Mermaid House, 2, Puddle Dock, E.C., 12.30
BOARD MEETINGS:
Finals:
Sutcliffe Speakman
Interims:
Blagden Inds.
Glynwed Intl.
Hickson Intl.
Johnson Group Cleaners
Merlin Intl. Green Inv. Tst.
Molynx
News International
Royal Insurance
Thomson Corp.

■ FRIDAY AUGUST 16
Lees (John J), Forte Crest Hotel, Bothwell Street, Glasgow, 11.30
Marston, Thompson & Evershed, The Albion, Shobnall Road, Burton-on-Trent, 12.00
BOARD MEETINGS:
Interims:
Plasmec
Portmeirion Potteries

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
ACT 2.5p
Amber Indl. 12p
BAA 7.75p
Citicorp 25cts
City Site Ests. 0.96p
Clyde Blowers 0.83p
Cohen (A) 16.5p
Do. "A" 16.5p
Dobson Park Inds. 1.9p
Feedback 0.5p
Fleming American Inv. 0.5p
Hambros Eurobond & Money Mkt. 28.2p
Do. (Stlg. Euro.) 23.1p
Do. (C$ Euro.) C$0.981
Do. (Yen Euro.) Y79.1
Do. (Contl. Euro.) DM1.659
Do. (Stlg. Money) 65p
Do. (US$ Money) C$0.406
Do.(Contl. Euro Money) DM1.96
Hardys & Hansons 13.4p
Hawtal Whiting 4p
Lee (Arthur) 1.65p
Norcros 3.5p
Portals 9½pc Ln. 1994/2000 4¾pc
Tesco Capital 9pc Bds. 2005 (Reg) 4½pc
Do. (Br) 4½pc
Whitecroft 5.4p
Do. 4.1pc Pf. 2.05p

■ TOMORROW
Caledonia Invs. 9p
Charter Cons. (Reg) 14p
Do. (Br) 14p
Cropper (James) 1.925p
Faupel Trading 3.05p
Halifax Bldg. Soc. Fltg. Rate Ln. Nts. 1994 £147.77
Henderson Highland Tst. 1.4p
M & G European & Gen. Tst. Fd. 2.018p
National & Prov. Bldg. Soc. Fltg Rate Nts. 1999 £294.59
Racal Telecom 2.67p
Royal Bank of Scotland Fltg. Rate Nts. 2005 £146.51

■ WEDNESDAY AUGUST 14
Asprey 3.75p
Banco Nacional De Mexico Fltg. Rate Sub. Nts 1992 $172.83
Barr (A.G.) 1.0833p
Danka Business Systems 2p
ERF 3p
NatWest Bank Prim. Cap. FRN's (Ser. B) $342.52
State Bank of N.S. Wales 10 Year Extendible FRN's $342.52
Walker & Staff 3.3p

■ THURSDAY AUGUST 15
Abbott Labs. 25cts
Alexon 3p
Anglo Amer. Inv. Tst. 6pc Pf. 1.28393p
Archer (A.J.) 3.15p
Aukett Associates 1.25p
Avon Intl. Finance 10¼pc Gtd. Nts. 1992 5⅛pc
Britannia Bldg. Soc. Fltg. Rate Nts. 1995 £297.11
Chase Manhattan 30cts
Do. Fltg. Rate Sub. Nts. 2000 $156.53
Colgate-Palmolive 26.5cts
Control Techniques 2.15p
Fishguard & Rosslare Rlys & Hbrs 3½pc Pf. 1.225p
Greater Lon. Council 6¾pc 1990/92 3⅜pc
Marsh & McLennan 65cts
Midland Bank Sub. Fltg. Rate Nts. 2001 £148.55
NatWest Bank Und. Var. Rate Nts. £310.34
Newman Tonks 3.8p
Nova Corp. of Alberta 13cts
Pacificorp 37.5cts
RHM O'seas. Finance 9pc Bds. 1992 4½pc
Scottish Met.Property 2.53p
Do. 10¼pc Mtg. Deb. 2016 5⅛pc
Do. 7⅜pc Mtg. Deb. 1988/93 3$\frac{11}{16}$pc
Sears 7¼pc Ln 1992/97 3⅝pc
Southern Business 1.03p
Sterling Inds. 4.1p
Storehouse 2.5p
TSB Gilt Fd. Pf. (Class "A" Pf.) 2.675p
Trinity Intl. 1.75p
Wells Fargo Fltg. Rate Sub. Cap. Nts. 1998 $158.13

■ FRIDAY AUGUST 16
BTP 5.45p
Bisichi Mining 0.6p
Burtonwood Brewery 3.54p
Falcon Mines NZ$0.15
Folkestone & Dist. Water 3.5pc Max 1.75pc
Do. 7pc Max 3.5pc
Do. 4.9pc Max 2.45pc
Do. 4.9pc Max (1953 Iss) 2.45pc
Halma 1.42p
Harrison Inds. 1.25p
Hasbro 6cts
Hogg Robinson 3.3p
Latham (James) 1.25p
Lees (John J) 1.25p
Reed Intl. 10p
Somic 1p
Symonds Eng. 0.7p

■ SATURDAY AUGUST 17
Marston, Thompson & Evershed 3.2p

■ SUNDAY AUGUST 18
Credit Foncier De France Gtd. Ln. 2011,12,13,14 (Reg) 5⅛pc

APPOINTMENTS

Top posts at BZW Futures

■ BARCLAYS de ZOETE WEDD has reorganised its London futures operations. **Mr Nick Durlacher**, managing director of BZW Futures, has been appointed chairman, and **Mr Graham Newall**, head of futures at BZW Australia, has been appointed to the new post of chief executive of BZW Futures. In addition to his London duties Mr Newall will have a global co-ordination role.

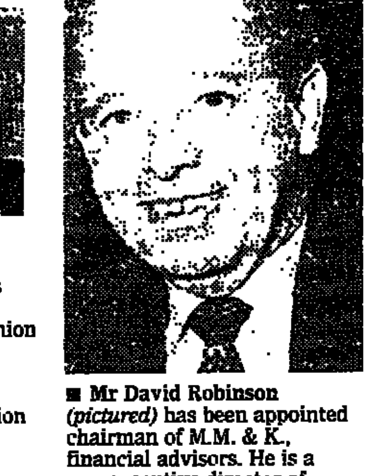
■ **Mr Brian L. Cann**, who retires shortly as managing director of St Martins Property Corporation, has been elected chairman of WYNNSTAY PROPERTIES.

■ QUORUM CAPITAL MANAGEMENT has appointed **Mr Mark Tapley** as chief investment officer and deputy managing director. He was managing director of London and Bishopsgate Investment Management. **Mr Charles Anderson** becomes marketing director. He was marketing director of D.C. Gardiner Group.

■ **Mr Jim McClurg**, a UK divisional director of COMMERCIAL UNION, has been appointed deputy chairman of Commercial Union Financial Services, and **Mr Mike Langmaid** becomes administrative director, promoted from administration manager.

Mr Bill Haynes *(left)* has been promoted to southern regional sales director, and **Mr Chris Tynan** *(right)* has been promoted to northern regional sales director.

■ **Mr Michael Clarke** joins BRITISH WATERWAYS as director of engineering today, August 12. He was managing director of engineering subsidiaries in the Davy Corporation.

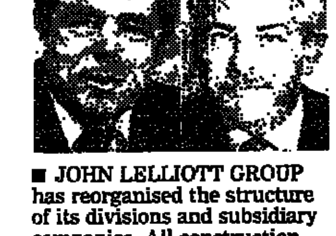


■ **Mr David Robinson** *(pictured)* has been appointed chairman of M.M. & K., financial advisors. He is a non-executive director of Finlay Packaging, and of Whitton Group, and succeeds **Mr Denis Lanigan** who has retired.

■ WIMPEY HOMES has appointed **Mr G. Bruce Wheelan** as a director, responsible for activities in Scotland and the north of England. He was north east regional manager.

■ **Mr J.L. Hudson**, chief executive of Wagon Industrial Holdings, has been appointed a non-executive director of SENIOR ENGINEERING GROUP.

■ BRANDS HATCH LEISURE has appointed **Mr Alan Priest** as group sales and marketing director. He was managing director of SEAT UK.



■ JOHN LELLIOTT GROUP has reorganised the structure of its divisions and subsidiary companies. All construction work will be undertaken by either John Lelliott Construction of which **Mr Michael Beehag** *(left)* becomes managing director, or John Lelliott Projects where **Mr Peter Titmus** *(right)* is made managing director.

CONSTRUCTION CONTRACTS

Sheffield light railway scheme

BALFOUR BEATTY has been awarded a contract valued in excess of £70m to design and construct the infrastructure for a £230m light railway system in Sheffield. The contract was awarded by South Yorkshire Supertram, a company formed by the South Yorkshire Passenger Transport Executive to implement and operate the scheme.

The contract is for the total civil engineering, track and mechanical and electrical infrastructure work, all of which will be carried out by Balfour Beatty's in-house resources.

Predominantly a double-track system, the 30 kilometre Supertram network will consist of two lines forming a Y configuration. Some 14 kilometres of the route will have on-street running, 13 kilometres of segregated track which will be sited adjacent to the roads, while the remaining three kilomtres will run on converted British Rail track. As the terrain in the South Yorkshire Supertram area is hilly, gradients of up to 10 per cent have to be catered for in the designs.

The system will be constructed in two stages. The first stage, due for completion by the end of 1993, will provide an eight kilometre link between the city centre and the large shopping complex at Meadowhall in the north east of Sheffield.

The second stage, consisting of a 22 kilometre line, will run from Middlewood in the north west to Halfway in the south east. The project, which is due for completion in 1995, will be Britain's second modern tram system, the first being in Manchester.

Civil engineering work at Sellafield

SIR ROBERT McALPINE AND SONS has been awarded a £12m contract by the National Nuclear Corporation (NNC) for the design and construction of all civil and building work associated with the installation of a gas-fired combined heat and power plant (CHP) at Sellafield for British Nuclear Fuels (BNFL).

The plant has been designed to meet the in-house steam and electrical requirements of the reprocessing complex with the surplus electricity being exported to the National Grid. When it is fully operational in 1993, the plant will provide BNFL with up to 250 tonnes per hour of steam, with electricity generation in the region of 170 MW.

Sir Robert McAlpine and Sons is responsible for the design and development of the preliminary works and the design and construction of various buildings on the site. The main structures are a steam turbine hall/auxiliary boiler house 53 metres x 45 metres x 23 metres high; a basin measuring 60 metres x 14 metres x 15 metres designed to support 4 x 13 metres high cooling towers; a gas turbine ancillaries building; an oil storage compound containing three fuel tanks; bases for three gas turbines and their associated waste heat recovery boilers.

Extensive ground works include over 80,000 cu metres of excavation. A total of around 400 driven cast in situ piles will form the foundations for the main structures.

Treating water in the Greenock area

A £12.5m turnkey contract for a new water treatment works at Overton has been won, in competitive tender, by a joint venture of HENRY BOOT SCOTLAND and PWT PROJECTS.

The contract, awarded by Strathclyde Water, has a duration of 26 months and covers the design, engineering and construction of a treatment plant with an output of 62.5m litres per day.

The new works will replace six treatment plants and will ensure that water supplied to the Greenock area complies with the Water Supply (Water Quality) Scotland) Regulations 1990.

Overton at Greenock is in the Inverclyde district of the Strathclyde region.

The new Overton plant will draw water from two existing upland reservoir complexes, five kilometres south of Greenock: Loch Tom reservoir and the adjacent Gryffe reservoirs.

New computer centre in Hertfordshire

BOVIS CONSTRUCTION, a P&O company, has begun work on a £10.1m contract to build and fit out a two-storey 32,300 sq ft dedicated computer centre for Glaxo Group Research at its Stevenage site in Hertfordshire.

The computer centre will provide links to worldwide data processing facilities. The structure of the building comprises a reinforced concrete frame with structural steel roof and concrete topping, over which is an asphalt covering.

The external facade is a combination of exposed aggregate pre-cast concrete panels, columns and spandrels with extensive areas of both silicon sealed glazing and louvres to the areas of the internal plant room. Fitting out involves considerable mechanical and electrical installations together with the creation of office areas and plant rooms.

The project is expected to be handed over by the end of June 1992 and Glaxo intends to have the centre fully operational within three months.

£29m orders awarded to Conder Group

Two divisions of CONDER GROUP have been awarded contracts totalling over £29m.

Conder Projects starts work in August for Nithsdale District Council on the design and build of Palmerston leisure centre (£3.9m) which will be the first international sporting arena in Dumfries.

The company will also shortly commence work on the design and build redevelopment of the new Eagle Centre market for Derby City Council (£5m).

Other contracts include a project for the Ministry of Agriculture, Fisheries and Food in Slough and a new headquarters and production building for Jordan Grand Prix at Silverstone, totalling (£2.8m).

IEI, Conder's building services division, has been awarded further contracts by Arlington at Farnborough aerospace park (£13m) and Aztec West, Bristol (over £2m).

Overseas work for Beazer

BEAZER ASIA has recently won contracts valued at more than £28.4m in Hong Kong, Thailand and Macau.

In Hong Kong, the Hutchison Whampoa Group has awarded the £9.5m contract for foundations of Phase III to the Ap Lei Chau residential development to Franki Kier.

Works for the contract include the piling for the five tower blocks and large podium, site investigation and testing, associated draining works, and an access road and ramp. The project will commence shortly and is expected to be complete by the middle of next year. The second phase of the development, awarded to Franki in 1989, is well advanced and on schedule.

Beazer's Thai subsidiary, Kin Sun (Thailand) has won the contract to build the Suvit Plaza, a 20-storey office building with two basements, for Sinsuvit Estates. Kin Sun will complete the piling and foundations this month. The superstructure works, valued at more than £12.04m, will commence immediately.

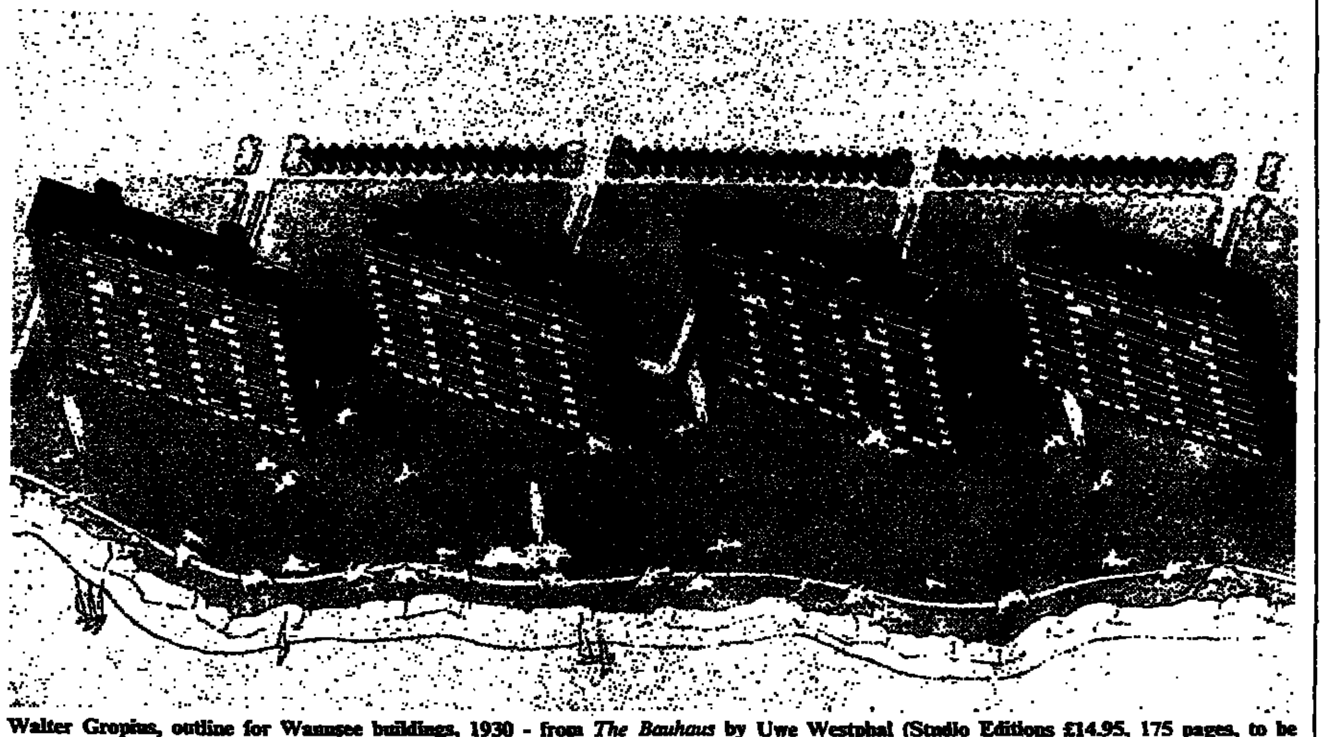
In Macau, Beazer has won a number of piling contracts including the proposed five-star Golden Palace Hotel which is being developed by The Luck Hock Group.

Kin Ching Besser, the building materials subsidiary, has secured a two-year contract from the China Light and Power Company to dispose of ash for £2.16m. Freyssinet Hong Kong has won slope protections and sewer refurbishment works valued at £1.5m.

Wallis Western, part of Beazer Construction, has been awarded a contract valued at £8.2m to design and build four office buildings for Arlington Property Developments at its Aztec West business park in Bristol. The buildings are sited adjacent to the M5 motorway.

Architecture

Building books for beachside buffs



Walter Gropius, outline for Wannsee buildings, 1930 - from *The Bauhaus* by Uwe Westphal (Studio Editions £14.95, 175 pages, to be published next month).

It looks like being a serious summer. The new books I have been looking at with a little beach or poolside reading in mind are not the architectural equivalents of Jeffrey Archer. They include biography, secret societies, a new "bible" for architectural historians and quantities of architectural theory.

It may not be light reading but it represents a considerable quantity of serious, sometimes provocative thought. There is, in theory at least, time in the summer to read those works that are going to change your life. The problem is whether to forsake Trollope for a heavy volume of architectural theory. Duty calls, and what follows is your optional self-improvement summer reading list for architecture buffs and potential clients.

To break yourself in gently I recommend two biographies. The first is a paperback version of one of the most enjoyable lives of an architect that I have read, Edwin Lutyens by his Daughter, by Mary Lutyens (Black Swan, £6.99; 336 pages.) This highly personal account of the creative life of one of England's great artist/architects is a most worthwhile read.

Mary Lutyens is fascinated by the psychology of human relationships and is intrigued by sex. This book could well have shared with another volume the title "portrait of a marriage", as it tells through letters and the author's own acute memories of her parents a poignant and moving love story. It is a beautifully written story of the creative life of Lutyens, his partnership with Gertrude Jekyll and the whole story of the building of Imperial Delhi. It has been out of print for some years and this paperback is very welcome.

The second biography, Gropius, an illustrated account of the creator of the Bauhaus, by Reginald Isaacs (Bullfinch Press – Little Brown and Company, £25, 344 pages) is the story of a German architect born 14 years after Lutyens, who had a profound effect as a founder of the International Modern Movement. This book is the first English language version, mercifully abridged, of the two-volume life by Isaacs that was published in German.

Isaacs worked closely with Gropius as a kind of Boswell, and so even in this shortened version you learn more than you knew you wanted to know about his life. His love affairs and marriages are thoroughly explored from his first romance with Gustav Mahler's wife – which, after a period of *froideur*, flowered into Gropius's first marriage – to his simultaneous love for both his mistress and his second wife. All this helps to put flesh on the stark bones of the founder of the architectural power house that envisioned the cool order of modernism.

The story of the Bauhaus is well told in this book. The Nazis' hatred of it and its demise are clearly explained. Gropius had resigned as its director in 1928, but he was to leave Germany in 1934 where he spent less than three years working with Maxwell Fry and others. His most interesting building of that period is the Impington Village College near Cambridge, which was also part of a social and educational experiment.

Gropius was soon lured to America, where he was appointed Professor of Architecture at Harvard in 1937 – he continued to practice in Cambridge, Massachussetts, until his death in 1969. I wouldn't call this book a critical biography. It tells the story in such detail that it is possible to draw one's own conclusions. No one doubts the importance of the original Bauhaus but the actual quality of Gropius's architecture today looks unremarkable.

From biography to the bible. British Architectural Books and Writers 1556-1785, by Eileen Harris assisted by Nick Savage (Cambridge University Press, £95, 571 pages), will become the bible of architectural bibliophiles.

This encyclopaedic volume treats architectural books in the way that Howard Colvin's dictionary of architects treats buildings. Each major author's bibliographical contribution is preceded by an essay describing ideas and the intellectual framework of the author. Then his individual publications are listed and described in detail.

I found the most absorbing way to use the book was by selecting topics from the index – such as grottoes or garden buildings – which then led you deeply into the subject through lengthy bibliographical entries. Garden buildings, for example, lead you to ruins, rockwork and rostral columns and ultimately to triumphal arches and urns. This is a book for any serious architectural library – but beware, it is a book that will beget books.

The Art and Architecture of Freemasonry, by James Stevens Curl (Batsford, £45, 271 pages) is an important book dealing with a subject that has intrigued many but has also received only scant or sensational treatment. The most valuable aspect of it is the wealth of illustrative material that the author has assembled.

I learned a certain amount from the text but found the author's style discursive and confusing. He is right to draw attention to the significance of masonic symbols and the links with ancient Egypt, the Jewish temple, and the Enlightenment.

His cry for an authentic and uncut version of Mozart's *Die Zauberflöte*, using Schinkel's perfect sets, heavy with symbolism, is one to echo – especially in Mozart's bicentenary year. The glossary is extremely clear and useful and there is a full bibliography.

For some intellectual fun and thoughtful diversion I would take The Built, the Unbuilt and the Unbuildable, by Robert Harbison (Thames and Hudson, £16.95, 192 pages) on my holidays. The sub-title is "In Pursuit of Architectural Meaning" and the book is an exploration of some of the fictional facts that have grown up around architecture. He begins by looking at gardens, which he sees as "places where the undeclared war between architecture and its antitype, nature, between growth and the ordering impulse, is presented as delicious harmony."

Again, with monuments, Harbison is intrigued most by the irony of their failure to do much more than express the desire to express something. He takes us to Washington, where the monotony of monuments removes all meaning. However, like many of his generation, he is moved by the Vietnam memorial, which is not an inert memorial but a living directory of names.

I found Harbison's book the most rewarding read – I especially enjoyed his chapter on ruins. How right he is to see, in so much High-Tech architecture, the idea of the picturesque ruin. The book is full of similar provocative new thoughts.

Colin Amery

Tango at the end of Winter

KING'S THEATRE, EDINBURGH

The Theatre side of the Edinburgh Festival opened on Saturday in truly international style with a Japanese play full of Western influences and performed in English is the first time that Tukio Ninagaya, who is a frequent visitor to Edinburgh, has directed in the English language and with a British cast. It should not be the last.

Tango at the end of Winter required a large stage and large auditorium and at the King's Theatre. It gets both. The play is set in a cinema, not in fashionable Tokyo but in northern Japan from where you have to take an ordinary train before connecting with the in order to return to the capital. Tokyo is seen as a far away place, almost as remote as the West. You have to buy a map to explore the streets, just as foreign students buy maps to explore the streets of Paris.

The theme is cultural change: the cinema used to play movies like Charlie Chaplin's *Limelight* and American westerns. You used to be able to smoke there. Then the "no smoking" signs went up. Now the cinema is about to be pulled down to make way for a supermarket. In the early scenes there are dummies sitting in the seats, slightly covered in dust and reminiscent of some of the milder images of Hiroshima.

Change has had an effect on the characters, the principal of whom is the actor, Kiyomura Sei, played by Alan Rickman. Sei has performed some of the great classical parts in European literature in the past, but has lapsed into amnesia, whether feigned or real. He says that he can no longer remember which of his lines are from the stage or from real life. He also tends to confuse Chekov and Shakespeare.

The influence of both playwrights is apparent throughout. Sei has killed a peacock – not a seagull – in his youth and the deed haunts him ever after. It turns out not to be a bird, but an old cushion in peacock colours. How far he knew this all along is left unclear, though it is his girlfriend not his wife who exposes the reality. When he kills the girlfriend, it is unmistakeble that be thinks she is Desdemona. It takes him a while, however, to remember that therefore he must, therefore, be Othello.

It is tempting to say that Chekov is the bad influence, Shakespeare the good. There is also a touch of Pirandello in the flights betwen madness and sanity, the stage and reality, and the huge grey areas in between. You may say that it all sounds unbelievably corny, and there are times when it is.

The tango comes in as another western influence, predating the supermarket and the second world war, which, Japanese-style, is never directly mentioned. The music is occasionally played. "When I hear a tango," says Sei, "I think of freedom and revolution." He also thinks of when he was playing great parts in Paris, and of course it helps to explain the title.

The play is by Kunio Shimizu and adapted By Peter Barnes. How many internal Japanese references come in that I may have missed, I do not know. But the piece strikes me as being pretty well universal, if a shade in-bred theatrical.

Rickman plays Sei as the wonderful part it is: an actor of many roles striding about the stage. The other outstanding performance is by Suzanne Bertish as Sei's wife. Ms Bertish has a voice that one could listen to, and a presence and movements that one could watch almost for ever. Tango is to appear in London shortly: the only warning is that it will need to be staged as well as it is in Edinburgh. It may look better from the dress circle than from the stalls.

Malcolm Rutherford

Finnish Radio Sympony Orchestra

ROYAL ALBERT HALL/RADIO 3

The Finns played both the Friday and Saturday Proms last week, and all in all their visit was a notable success. It is a good orchestra, and they brought two of the most exciting young Finnish soloists with them; yet in no small part the success was founded upon their programmes, the best-planned in years from a visiting second-eleven band. No doubt the canny planner was their conductor Jukka-Pekka Saraste, who knows British audiences well.

For one thing, they spared us Mozart this year. For another, though naturally they brandished some of their own music, it wasn't the Sibelius Second Symphony, nor even the Fifth. (We don't really need Norwegians to bring us the Grieg Concerto, nor provincial Soviet bands to do Chaikovsky's Fourth). Instead they offered rewarding, unfamiliar Sibelius, and a recent piece by young Magnus Lindberg, and some neglected Schumann and Debussy.

And the choice of Rakhmaninov's *Paganini Rhapsody* for Saturday justified itself brilliantly: the pianist Olli Mustonen not only dazzled in it, but lavished quirky imagination of a rare order on every page. This performance, with Saraste in close sympathy, was at the furthest extreme from the usual unrelenting, iron-fingered assault on the piece.

It will be some time before a merely virtuoso account of the Rhapsody will sound tolerable again. Friday's soloist, the soprano Karita Mattila, had no competition to challenge, for her Sibelius is in hardly anybody's repertoire: the crepuscular, grandly declamatory *Höstkväll* and the rapt, extended *Luonnotar* (composed for Aino Ackté). She was in superb voice, soaring and glowing.

That concert had begun with Schumann's *1841 Overture, Scherzo and Finale* – rather mild, with the dotted-rhythms of the latter movements left too slack. Neither Saraste nor the FRSO sounded at home yet with the Adagio of Mahler's Tenth, either.

Lindberg's recent *Kinetics* was far more interesting. Starting with high, tinkling patterns, it acquires power and tense drama as successive layers are added; yet there are transparent lines which keep one's ears on the right track, and nothing like the ferocious clatter that marked his earlier music. This is a serious composer.

On Saturday the purely orchestral works were the *Four Lemminkäinen Legends* of Sibelius, far more consistent and original than his First Symphony of some three years later. The second piece, *Lemminkainen in Tuonela*, is extraordinarily bold, obsessive and strange; but all four were delivered with terrific fervour. As for Debussy's early *Printemps* (in the new orchestration made by Henri Büsser after the original was lost), Saraste's devoted care found charms and nuances in it beyond any routine French performance. The Finns, it seems, have their fingers much more securely on Debussy's pulse.

David Murray

New York City Opera

Christopher Keene's incumbency of the New York City Opera promises well. Last season he conducted a *Moses and Aaron* that was the high point of the year's music; later this season he conducts the New York premiere of Zimmermann's *Die Soldaten*. And the first new repertory-opera productions of the City Opera season – the *Traviata* that I wrote about recently, and now a new *Cavalleria rusticana* and *Pagliacci* – have got people interested and talking: not necessarily approving, but thinking anew about the old operas that form the staple repertory.

The City Opera is challenging the hidebound Met. It's not quite the ENO/CG comparison (I've not forgotten *Gawain*); and there's the big difference that the City Opera's American singers, exotically and irrationally, still address American audiences in foreign languages, not directly and dramatically.

Cav & Pag are the epitome of verismo opera. Two productions remain vivid with me: Zeffirelli's at Covent Garden in 1959, which was richly detailed, beautiful to behold, realistic to the point where the liquid representing wine was tinted to the precise shade of what Francofonte produces, and the ladies of chorus were corseted into authentic Sicilian shapes; and Lamberto Puggelli's at Parma, ten years later, which was not realistic at all but strictly Brechtian – a theorem about human behaviour leading to two tragedies (and which was also of high visual distinction and high emotional charge).

It came in the year, 1969, when opera was under fire and few Italian seasons opened without incident. Parma's demonstration was non-violent but troubling: in the piazza, beside the gay municipal Christmas tree, sugar workers had erected a small "tree of misery," whose stunted boughs bore only the names of strikers killed by the police and statistics of provincial wages in the provinces. Through rain and snow, workers and students kept vigil.

New York is a city of great poverty and sensational violence. The new *Cav & Pag* is set in New York – but in its Little Italy a century ago. The producer, Jonathan Eaton, writes of restoring "gritty realism" to the operas but presents an operatic never-never-land in which city streets are deserted while the soloists sing, then suddenly populous when the moment for a chorus arrives. In Zeffirelli's production it made sense for the villagers to sing of fragrant orange trees and carolling larks all around; also in Puggelli's pure-theatre production. In Eaton's, it is a conceit; we have to work out that the immigrants (and later Alfio, an itinerant knife vendor on a bike) are singing songs brought from old Sicily.

Extra violence and explicit sex are slopped on. Turiddu after his serenade screws Lola in a doorway (with near-comical speed). The final fight is onstage; Alfio castrates the dying Turiddu and he is held up in a bloody parody of the Christ statue that dominated the Easter procession. Eaton writes of divine and human rituals exploding on the same day! (He forgets poor Santuzza, whose music is pouring from the pit but who passes almost unnoticed amid the blood and the blasphemy.) In *Pagliacci*, Canio catches Silvio with his hand up Nedda's dress.

It's all rather cheap, jejune, exploitative, unconvincing. The set, the lighting, and much of the production are routine tacky. The chorus assembles in a semicircle (and even then falls behind the beat). On the other hand Richard Bradshaw, in his City Opera debut, conducts performances not only passionate and energetic but refined and scrupulous. (Bernard Shaw, in days when belcanto singers sang *Cav & Pag*, reviewed the operas as Donizetti updated; Lord Harewood, in Kobbé, calls Mascagni an heir of Bellini.) The orchestra plays attentively, often with beauty.

There are two remarkable performers. Sharon Graham, the Santuzza, sometimes pushed into unsteadiness, but she is a spell-binding artist – free, fascinating, stirring, with life and colours in the delivery of every phrase and a touching presence. And Sigmund Cowan was a big-time, world-class Tonio, with a baritone of unforced strength and steadiness, and an Iago-like variety of utterance. (The same singer, Victor Maurel, created both Iago and Tonio.)

Stephen O'Mara's Turiddu was (under direction?) neurotic and morose, and a bit bottled-up in tone, not bright and forward. John Absalom's Canio was honest and affecting. Gwynne Geyer, a Canadian debutante, was an efficient Nedda but lacked charm of sound. Most of the singers had merits. In a reasonable opera house, not the 3000-seat monster the City Opera plays in (Parma holds 1300), the performances would probably have been overwhelming.

Andrew Porter

Graduation Ball

ROYAL FESTIVAL HALL

It has been a disappointing summer with English National Ballet. The Coliseum season in July looked ill-conceived as well as ill-attended – there was no excuse for staging the hyper-active *Taming of the Shrew* or the flaccid *Our Waltzes*. The current Festival Hall performances have not surmounted the mechanical problems of making ballet look good on an inimical stage, and the debacle of *Schéhérazade* last Monday was a sorry indication of declining standards.

Matters were in no wise improved by programming at the end of the week, when the Torvill and Dean capers of *Our Waltzes* were again on view to start the evening. Just acceptable as part of an ice-show, these mopings to over-sweet, over-decorated salon waltzes are an interminable bore in the theatre. To follow them with another wallow in piano music – Ben Stevenson's turgid *Three Preludes*, given no less lumpen interpretation – was to doubt the existence of an artistic policy for the company. To patronise the public even further by inserting a make-weight *pas de deux* seems an abrogration of duty by a major national dance troupe. On Friday night the *Black Swan* duet at least brought fine dancing from Yelena Pankova and Laurent Novis.

To end an evening that seemed in danger of blowing away from lack of substance, we were offered the frivolities of *Graduation Ball*. The programme book announced that this was the 592nd performance of the production. After so many years, so many youthful flirtations, there should be some discretion and subtlety to the company interpretation, for Lichine's happy choreography and Benois' pretty designs are owed more loving attention than they currently receive. *Graduation Ball* has gaiety of spirit, and to romp through it, as do most of the today's cast and today's orchestra, is to ignore its innocent charm. Honourable performances came from Thomas Edur and Tim Almaas as the leading cadets, and from Josephine Jewkes and Paul Chalmer in the *Sylphide* scene. They show that it is a better ballet than the rest of ENB believes it to be.

Clement Crisp

INTERNATIONAL ARTS PREVIEW & FESTIVALS

The 1991 Frankfurt Festival (at the Alte Oper from August 14 to September 29) takes as its theme 'Beauty - A Utopia?', which is explored in a wide variety of concerts and music-theatre events.

Markus Stenz conducts the premiere of a new music-theatre piece based on Shakespeare's Romeo and Juliet, adapted by Frank Moritz with a score by Volker David Kirchner (Sep 3, 4, 5).

The Romeo and Juliet theme is picked up in a Prokofiev concert with the German-Soviet Youth Philharmonic Orchestra (Aug 16) conducted by Mstislav Rostropovich, who also gives a cello recital (Aug 17).

Gerd Albrecht conducts Dvorak's dramatic cantata The Spectre's Bride (Aug 25). Another Dvorak rarity, the opera Dmitry, is given a concert performance by the Stuttgart Radio Symphony Orchestra under Helmut Rilling, with Keith Lewis in the title role (Sep 9).

The festival has also unearthed Alberto Franchetti's Cristoforo Colombo, an Italian grand opera first performed in Genoa to great acclaim in 1892 but long since forgotten.

Marcello Viotti will conduct two concert performances, with Renato Bruson in the title role (Aug 30, Sep 2). Margaret Marshall heads the cast in a concert performance of Gluck's Paride ed Helena (Sep 13).

The festival has a rich selection of new music. Karlheinz Stockhausen opens and closes the festival, with a new piece for solo flute on the first evening and the premiere of excerpts from *the opera Dienstag aus Licht* at the end. Sylvano Bussotti is well represented: a production by the Cassel State Theatre of the Sade Fantasy (Aug 22, 23) and the Rara Requiem (Aug 31) frame a week of Bussotti events.

There is also a full-evening musical extravaganza by the Swiss avant-garde composer Klaus Huber (Aug 23), a programme of symphonic works by Wolfgang Rihm (Sep 1), concerts conducted by Pierre Boulez (Sep 5) and Ingo Metzmacher (Sep 8) with music by Birtwistle, Messiaen, Schnittke and others, and two programmes of new Soviet music played by the Moscow-based Ensemble of the Society for New Music (Sep 9, 13). Hans Werner Henze conducts the Scharoun Ensemble in the premiere of his new piece for chamber ensemble (Sep 19).

***Mainstream concerts include* a Schumann and Mahler programme conducted by Claudio Abbado (Wed) and several Mozart events, with Gil Shaham soloist in the Violin Concerto No 4 (Aug 19) and the Orpheus Chamber Orchestra playing symphonies and divertimenti (Aug 28).**

■FESTIVALS GUIDE

ALDEBURGH
Tonight, John Lubbock conducts the Orchestra of St John's Smith Square in a Viennese Prom. Tomorrow, Gunther Pichler conducts the Britten-Pears Orchestra in a programme of Mozart, Schubert and Schoenberg. Other events this week at Snape include a song recital by Thomas Allen (Thurs) and a popular Handel and Bach programme with the London Bach Orchestra conducted by Nicholas Kraemer (Fri). Ends Aug 31. (728) 452935

BAYREUTH
Tomorrow's performance of Götterdämmerung, conducted by Daniel Barenboim, brings to an end the second of this summer's three Ring cycles. This week also has performances of Dieter Dorn's cool, intellectual production of Der fliegende Holländer (Wed and Sun), plus Lohengrin (Thurs) and Parsifal (Fri). Ends Aug 28. (921) 20221

BREGENZ
Tonight's concert in the Festspielhaus by the Vienna Symphony Orchestra is conducted by Vladimir Fedosseyev, with Mahler's Fifth Symphony and Mozart's Oboe Concerto (soloist Klaus Lienbacher). The Budapest Festival Orchestra, conducted by Ivan Fischer, gives the last of this year's festival concerts on Sun, with a programme of Beethoven's Seventh Symphony and Mozart's Concerto for two pianos (soloists Dezso Ranki and Edit Klukon). Sona Ghazarian gives a song recital on Sat at the Theater am Kornmarkt, and there is still ample opportunity to see Jerome Savary's lakeside production of Carmen, with performances every night from Tues to Sat. Ends Aug 24. (5574) 4920 224

EDINBURGH
This is the festival's first full week, and the selection is so rich that it is hard to make a choice. Assuming that you were able to see the Kirov production of Khovanshchina and the Moscow Lenkom Theatre's Ostrovsky production during the opening weekend, the Usher Hall seems to best place to be for the first part of the week. Margaret Price gives a recital of songs by Schubert and Schumann tonight, followed tomorrow by the Kirov's Mussorgsky concert conducted by Valery Gergiev. Alexander Gibson makes a welcome return to the festival on Wed, conducting the Royal Scottish Orchestra and Edinburgh Festival Chorus in Britten's War Requiem. On Thurs and Fri, you could take in the innovative Canadian dance company La La La Human Steps (Playhouse Theatre), and the Ninagawa Company's English-language production of Tango in Winter, a play by the Japanese author Kunio Shimizu (King's Theatre). The Leningrad Philharmonic Orchestra's Tchaikovsky concert, conducted by Yuri Temirkanov at the Usher Hall, is the main event on Sat, and a Romanian production of Alfred Jarry's surreal farce Ubu Roi can be seen at the Empire Theatre on Sun. And don't forget the Military Tattoo, every evening at 21.00 at Edinburgh Castle. For something more off-beat and unpredictable, the Fringe offers a vast choice. Ends Sep 1. Official Festival: (31) 225 5756. Tattoo: (31) 225 1188. Fringe: (31) 226 5138

EPIDAURUS
The drama festival at the Ancient Theatre of Epidaurus has two performances this week: Spyros Evangelatos' Amphi-teatro production of Sophocles' Electra, on Fri and Sat. Ends Aug 31. Ticket information from Athens Festival box office (1) 322 1459 during the week, or the Epidaurus Theatre on days of performance (753) 22026

GLYNDEBOURNE
The penultimate week of this year's festival begins with Nicholas Hytner's much-admired production of La clemenza di Tito (tonight and Thurs), conducted by Andrew Davis, with a cast including Philip Langridge, Ashley Putnam and Martine Mahé. Peter Sellars' trendy production of Die Zauberflöte, in a new Anglo-American translation, returns for three performances (tomorrow, Fri and Sun). Olaf Bär sings the title role in Don Giovanni, conducted by Donald Runnicles (Wed and Sat). Ends Aug 23. (273) 541111

LOCARNO
This week's line-up of new films at the Piazza Grande includes Bianzou Bianchang by the Chinese director Chen Kaige (tonight), Jacques Rivette's La Belle Noiseuse (tomorrow) and The Adjuster by Atom Egoyan (Wed). The festival ends on Sat with a showing of Final Fling, a 1961 film by the Japanese director Yasujiro Ozu. (93) 310232

PESARO
The two Rossini operas at this year's festival are Tancredi (tomorrow, Fri and Sun) and Otello (opening on Sat). Both are staged by Pier Luigi Pizzi. Tancredi, conducted by Daniele Gatti, has Mariella Devia, Lucia Valentini Terrani and Raul Gimenez in principal roles. Otello is conducted by Gianluigi Gelmetti and has a cast led by Cecilia Gasdia. Daniel Oren conducts a Mozart and Brahms concert on Wed. Ends Aug 31. (721) 697360

RAVINIA
David Owen Norris gives a piano recital tonight, including Bax's Sonata No 2, followed tomorrow by a chamber music programme with Chicago Pro Musica. The rest of the week is devoted to the Martha Graham Dance Company. There is a choice of two programmes, with performances every evening at 20.00 from Wed to Sat. Ends Sep 2. (312) 728 4642

SALZBURG
This is the oddball week at Salzburg this year, in which the festival offers some welcome alternatives to a heavy diet of Mozart. One of the more unusual events is a double-bill of chamber operas at the Mozarteum (Fri) staged by George Tabori and conducted by Udo Zimmermann. Bruno Maderna's Satyricon is paired with Rene Hirschfeld's Blanca, a new work inspired by Oscar Wilde. Henze's blockbuster Seventh Symphony features in a new music programme tomorrow with the Austrian Radio Symphony Orchestra under one of Germany's leading younger-generation conductors, Ulf Schirmer. Another event of note is the concert performance of Martinu's Julietta with Lucia Popp in the title role (Sat), conducted by Pinchas Steinberg. The most unusual Mozart event this week is an original-instrument concert conducted by Frans Brüggen (tonight), featuring the rarely-heard cantata Davidde penitente and the opera Der Schauspieldirektor. Ends Aug 31. (662) 8045

SCHLESWIG HOLSTEIN
The week begins with two performances (tonight and tomorrow) in Neumünster of Prokofiev's ballet Romeo and Juliet, with the Ballet of the Stanislavsky Theatre, Moscow, directed by Vladimir Vassiliev and the German-Soviet Youth Philharmonic conducted by Mstislav Rostropovich. The Academy of St Martin-in-the-Fields, directed by Iona Brown, plays in Schleswig (Wed), Meldorf (Thurs), Niebüm/Fohr (Fri) and Lübeck (Sun) with works by Bach, Corelli, Tippett, Britten, Mozart and Salieri. Piano recitalists include Krystian Zimerman in Wotersen (tonight) and Murray Perahia in Kiel (Sat). Ends Aug 25. (431) 567080

TANGLEWOOD
Seiji Ozawa, Charles Dutoit and Leon Fleisher share conducting honours in an orchestral concert on Wed which ends with the 1812 Overture and a fireworks display. On Thurs, Yo Yo Ma and friends present an evening of American music for cello. On Fri, Ozawa conducts the Boston Symphony Orchestra in Bernstein's Second Symphony and Berlioz's Symphonie Fantastique. On Sat, Marek Janowski conducts Dvorak's Eighth Symphony and Tchaikovsky's Violin Concerto, with Midori, and Ozawa returns on Sun for a programme including Bartok's Concerto for Orchestra and Mozart's Piano Concerto No 17, with Peter Serkin. Ends Sep 1. (413) 637 1600

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Assad cracks the whip

THE RELEASE of hostages, like the end of a war, is an occasion for joy tempered by anger and unease. One can only be delighted that individuals so long deprived of their freedom without any shred of just cause are now free. But one inevitably feels angry that they should have been subjected to such an ordeal in the first place, while for others it is still going on. For others still, like Lt Col William Higgins, the UN officer whose "execution" was announced two years ago, there will be no happy ending.

One feels angry, too, at the thanks which on such occasions have to be showered on political leaders for their "help". Why, one must ask, if such "help" was within the power of the Syrian and Iranian governments, could it not have been given sooner? And that is why one also feels unease.

The headlines are full of movement toward peace in the Middle East. But what sort of peace? Hardly a peace in which barriers and restrictions are removed and societies can peacefully intermingle. More of a cold, calculating accommodation, in which hard men of power retain power, but grudgingly recognise each other's spheres of influence.

For 16 years Lebanon has been a useful figure of speech for the rest of the world, representing the ultimate chaos and insecurity which can result from the breakdown of political order. But for the rulers of other Middle Eastern states it has been useful in a different way: as a paradise of deniability, where violence can be used with impunity to make points, settle scores and redress imbalances.

Privileged player

In this game of peculiarly cold-blooded *realpolitik* Syria has been a privileged player, but for that very reason a vulnerable one. Syria has been well placed to manipulate Lebanese politics not only through its geographical proximity (an advantage shared by Israel) but also through the close confessional, linguistic and ideological ties between its own population and many of the Lebanese.

By the same token, Syrian regimes have always felt their own security to be at stake in Lebanon; and their attempts to impose their own order there have been constantly undermined by the influence of other states. President Hafez al-Assad has acted in Lebanon with the same ruthlessness that has enabled him to stay in power in Syria for 21 years. But he has also had to act with patience and caution, frequently accepting setbacks or compromises; and perhaps in the end sacrificing much of his regional ambition for the higher priority of keeping Lebanon firmly under his control.

Foreign challenges

Among those that challenged Syrian hegemony in Lebanon in the past were Egypt, the Palestine Liberation Organisation, Israel, the United States, Iran and Iraq. Iran has now been weakened to the point where it is closely dependent on Syrian support. Iraq has brought upon itself a catastrophic defeat and is for the time being unable to play its usual role in Middle Eastern politics. The PLO too – even if it remains a force to be reckoned with in the occupied territories – has been effectively crushed as a regional and Lebanese force. The other three – Egypt, the US and Israel – are the parties to the Camp David accords, against which Mr Assad long cast himself as leader of the opposition.

Now, it seems, deprived of Soviet backing, Mr Assad is willing to abandon that role and seek an accommodation with Israel on more-or-less Camp David lines. As his share of the bargain he will expect not only the return of Syrian territory but the consolidation of the satellite regime in Beirut as the effective government of all Lebanon. Clamping down on Hizbollah and its offshoots – remnants of Khomeini's revolutionary expansionism, now disowned by President Rafsanjani – is a part of the process. The release of western hostages is what makes the process interesting to the US. If Israeli prisoners of war are also released, perhaps Israel will agree to relinquish its own little sphere of influence in south Lebanon. Otherwise, the long and messy endgame may go on for years yet.

Timely ideas on bank control

A STUDY of international banking issues which addresses many of the issues in the BCCI affair, although it was drafted before the event, appears today. Sponsored, with almost uncanny timing, by the think tank known as the Group of 30, its conclusions are judicious and potentially important, but the authors – Ms Sidney Key, a Federal Reserve economist working for the European Community, and Professor Hal Scott of Harvard University – do not seek over-simple answers to complicated questions.

They show that the issues are important and practical – for example, that "international competition" will only mean as much as accepted international rules allow – and they draw attention to some alarming gaps in the present regime. For example, there is no agreed way to resolve competing international claims on the assets of a failed bank, as the BCCI affair is showing. That affair will also vindicate the authors' concern with the governance of branches of non-domiciled banks, and lend weight to another of their main conclusions: that co-ordinated supervision cannot rely on informal contacts or even ad hoc "colleges" of supervisors, but requires a powerful and solidly staffed international centre.

Their central objective, however, is not to answer all the questions on international trade in financial services, but to offer a new framework for analysing them. The issues are usually discussed in confrontational terms – national treatment ("We treat all banks the same") against reciprocal ("You should treat our banks like we treat yours") – arguments which revolve around access, enforcement, and degrees of deregulation.

Functional analysis

Key and Scott propose instead a functional analysis which turns attention away from these contentious clashes of national interest on to more objective issues: how is systemic risk best limited? Should branches of foreign banks be treated in the same way as subsidiaries? Under whose rules should deposits be insured? The result is a matrix of policy objectives and bank structures in which the answers proposed by Key and Scott expose the difficult agenda which lies ahead.

For example, non-discrimination – most favoured nation treatment – is the bedrock of most trade agreements; but as they show, it makes sense to discriminate in matters of financial safety. Thus, for example, supervisory authorities in the main centres usually restrict the authority to open branches, and to participate in national settlement systems, to banks whose home countries acknowledge and enforce the Basle capital ratios. There are also a number of philosophical issues which will hamper international competition unless the parties seek genuine compromise rather than to enforce their own convictions on others – for example the attachment of the US Congress to restrictions on the exposure of banks to non-banking risks, the attachment of the Japanese to slow, organic change, and the widely differing views held round the world on how to resolve the dilemma between the protection of depositors and the growth of moral hazard.

Sticky question

The clearest conclusion from this analysis is that the kind of international negotiations which led to the Basle agreement are never finished; even the apparently simple question of prudential capital requirements proved a sticky one to resolve, and this in an area where there were no differences of principle to be resolved. It is thus clear that progress can only be made step by tested step.

BCCI is fortunately an isolated case with few systemic implications, but it is nevertheless a warning against allowing our competitive ambitions to outrun our supervisory reach. Soundness is fundamental; but we can afford to take time over improving competition. Yet it is the competitive questions involving national advantage that have political appeal. The neutral analysis in this study should help central bankers to persuade their political masters to remember that soundness should have top priority.

Honda, Japan's third-largest carmaker, is struggling to regain the hurtling momentum of its early years, says Steven Butler

A multinational changing gears

Mr Soichiro Honda, who died a week ago aged 84, was a non-conformist whose imagination and drive inspired generations of engineers at the company he founded, Honda Motor.

Yet by a curious irony, Mr Honda died, 18 years after retirement, just when the company was ditching much of the management wisdom he bequeathed. Honda Motor, Japan's third-largest carmaker and a company once held up by management experts as a model of how enterprises should cope with change, is struggling to recover the momentum of its early days. Sales have been faltering and the company is groping for new ways to organise what has become an increasingly complex business.

In the process, it is blazing a trail that other big Japanese companies may have to follow in coming years. For just as Honda led Japan's other carmakers in investing heavily in overseas manufacturing plants in the 1980s, it is also the first to have come up against the management difficulties such investments can entail. As its competitors become more genuinely multinational in character they too may discover that management systems that have worked well in Japan will become less effective.

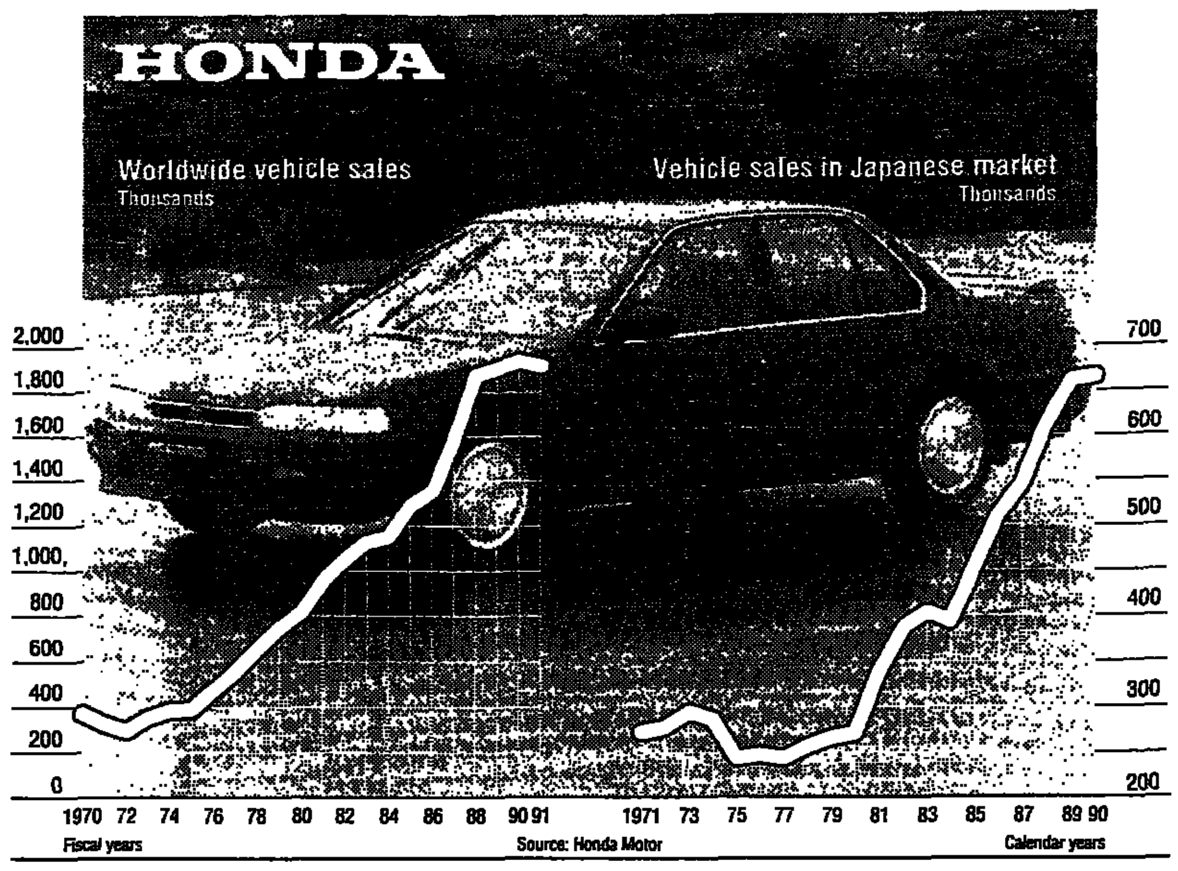
For most of the 1980s, Honda barely had time to catch its breath. Car sales doubled during the decade. But two years ago, growth in sales decelerated as Honda began losing market share in Japan to rivals such as Mitsubishi Motor and Nissan. Honda is now having to face the fact that it has become a mature company: the simple, though at the time inspired, management systems established by Mr Honda and his colleagues simply do not work in a company that is vastly bigger and more complex.

Honda also faces a more particular problem: the powerful inspiration provided by Mr Honda is now gone for good – even after his retirement his charisma had provided a glue which held disparate parts of the company together in a common outlook, encouraging both team-work and individual creativity.

Mr Honda built the company into a world-class motorcycle and car group in part by breaking all the Japanese rules on how to run companies: from the way he recruited graduates to the way he promoted people on the basis of merit rather than seniority. In the process, he unleashed the creative talents of his staff who, years ahead of more bureaucratic Japanese competitors such as Nissan and Toyota, produced cars that were stylish and technically innovative. Honda became Japan's fastest-growing company after the Second World War, and seemed unstoppable when its Accord model became the best-selling car in the US in 1989.

Yet the sparkle has now worn off. Growth has slowed. Sales have been sluggish in Japan, down 11.7 per cent in the first quarter of the year from the same period of 1990. Honda's designers misjudged what its customers were looking for. Its mainstream cars look old-fashioned, even dull, next to the more flashy models brought out recently by competitors. And the once unbeatable McLaren-Honda racing cars are now finishing in second place on the Formula One racing scene after the Williams-Renault team. The problems were enough to prompt the debt rating agency Moody's last week to lower by a notch the debt rating of Honda Motor's US financial subsidiary American Honda Finance Corporation.

These difficulties should not be exaggerated. Many car companies have hit a difficult patch this year because of weak sales and Honda remains financially strong. Yet after a fast sprint off the starting line, troubles like these represent a big change of gear, and they have prompted a thorough shake-up at the company's head office. Honda is struggling to recapture the innovative spirit of the



Source: Honda Motor

good old days while discarding many specific management practices established by Mr Honda. Systems, structures, and division of authority (things the founder disliked) are rapidly being imposed on an organisation that until recently believed it could act effectively on the basis of a company-wide consensus and teamwork.

"Our biggest advantage in the past was the speed with which we followed changes in the environment," says Mr Soichiro Irimajiri, Honda's executive vice-president who is central to the management changes. "But we find that we have become very slow." Mr Irimajiri traces the cause of this slowing down to the increased complexity of Honda created by its remarkable growth, which left the old management systems unable to cope. The effort to build consensus was taking too long, and individual managers did not have the authority to act alone.

Honda was founded in 1948 as a motorcycle company with a strong engineering orientation. It gained market share by selling motorcycles with technically superior engines and a decade after production began, Honda was the biggest motorcycle company in the world. It did not start producing cars until 1964, when it entered the industry against the opposition of the powerful Ministry of International Trade and Industry, which wanted Japan's 10 carmakers to consolidate into three large groups. Undeterred, Honda was making 374,000 cars a year by 1970 and last year (to the end of March) built 1.9m.

Honda is now the ninth-biggest car maker in the world, with annual sales at Y3,853bn. Yet it is not just the volume of production that has changed the company. Gradually Honda has expanded from a niche maker of vehicles for narrow segments of the market, such as mini or compact cars, to a mainstream producer of a wide range of models.

It was also the first Japanese car company to manufacture in the US, which has become its biggest market, with 952,000 cars sold last year against 669,000 vehicle sales in Japan.

The peak to Honda's growth came

The recognition of the need to be daring is the strongest link between management's outlook and Mr Honda's legacy

with the launch of the 1986 Accord model, which was a hit in both the US and Japan. This, however, proved to be the last gasp of the concept of the "world car" – a car with universal appeal – as a result of a growing divergence between the US and Japanese markets. In the US, Honda found, consumers wanted a high-quality, reliable means of everyday transport, whereas for increasingly affluent Japanese motorists, the car had become a status symbol to be driven for pleasure; they wanted only the more luxurious version of the Accord.

Honda's problem was that it did not have the resources to support separate model development in its two chief markets. As Honda engineers in the US and Japan worked on the 1990 Accord model, they bickered over specifications. It was not an efficient process, and led to mixed results. The car was a smash hit in the US; Japanese sales were disappointing.

"We had to focus on the US market to defend our success there," says Mr Irimajiri, "and this made difficulties for us in the Japanese market".

While Honda sales – especially of the Accord but also of other models – were faltering in its home market, sales of motorcycles had flattened out worldwide and motorcycle profits were poor. Its power products division, for consumer products with small petrol engines such as generators or lawn mowers, was continuing to lose money as unit sales declined.

Another complexity was added by the rapid growth in the number of Honda employees, and the diversity of their nationalities. Its staff grew from 55,700 in 1985 to 85,000 today, less than half of whom are Japanese.

When Mr Nobuhiko Kawamoto took over as president and chief executive in June last year it was plain that something had to be done. After a series of meetings with his two executive vice-presidents, Mr Irimajiri and Mr Yoshihide Munekuni, he announced a sweeping restructuring of the company in March.

The three men have formed what Honda employees call an "emergency troika". They have taken hold of Honda, are ordering people about to a degree to which Honda managers have not been accustomed and are busily reconstructing the company's systems for making decisions. One of Mr Honda's legacies was that Honda's directors worked in a noisy, open-plan office and they acted collectively, with no-one assigned clear lines of responsibility. The theory was that compartmentalising responsibility would limit initiative and inhibit directors' involvement in areas outside their main work.

Yet in time, says Mr Irimajiri, the opposite happened: no-one was assuming responsibility for anything. As the company grew, so did layers of middle management. Executives were passing too many decisions up the hierarchy. The corporate centre was swamped and unable to act quickly.

The open plan at headquarters, and the noise, will stay, but that is about all. For the first time, Honda has set up three operating divisions for cars, motorcycles and power products, which will act more like independent companies responsible for their own profits and losses. The motorcycle business had become over staffed, and had lost identity within the company after being dwarfed by car sales. Last year, motorcycle sales totalled Y529.5bn, compared to Y3,475.5bn for cars. Staff will be transferred out of motorcycles, and Honda hopes to restore the feeling of working in a small company by giving the division operational autonomy.

Cars, however, represent by far the most critical part of the business, and this is where the three men are concentrating efforts. Mr Kawamoto has taken direct charge of the newly-established automotive headquarters. Mr Irimajiri is overseeing product development and heads the company's independent research organisation. Mr Munekuni is in charge of sales. The aim is to improve co-ordination among all parts of the car organisation and end recrimination among sales and development staff who have been blaming each other for the sales slump.

The immediate goal is to rebuild momentum in Japan. For the moment, the decline in sales has been halted by the introduction in Japan of the Beat, a sporty mini-car.

Honda is adding new Japanese dealers, and increasing sales and service personnel. Capital spending in Japan is budgeted this year to fall from Y115.8bn to Y90bn, yet investment related to marketing and sales is slated to rise from Y8.5bn to Y10bn. Although Honda's research centre in Japan will continue to provide basic technology, independent vehicle development teams will be in operation in the US, Japan, and Europe.

Beyond this, the future of the company depends on how well Honda's "emergency troika" succeeds in the difficult and delicate task of establishing a new authority structure.

Although the concept of the restructuring is simple, it is extremely complex to implement. Layers of management are to be cut out, with redundant managers sent back to the factory floor. The corporate hierarchy will be flattened and more responsibility given to middle and lower management.

The troika is also devising a performance-related pay scheme for Honda's 4,000 top Japanese managers, to be implemented in the next two or three years. Mr Irimajiri says Honda wants to encourage its managers to take big risks, as the company did in the past, and must reward them.

It is the recognition of the need to be daring, to encourage managers to go out on a limb, that is the strongest link between the current management outlook and Mr Honda's legacy. It is a dilemma that is all too common among successful, fast-growing companies: how to preserve the small company ethos in a business that has become very big. It is also a challenge that is likely to face other Japanese companies as their overseas operations become bigger and more independent. However Honda fares, its experiences will provide useful lessons for corporate Japan as a whole.

OBSERVER

Commercial gossip

■ Little moves during August in Washington beyond the rumour mills. This year those still to be found at their desks are concentrating on spotting a potential successor to Robert Mosbacher, the US Commerce Secretary. A good fund raiser, but not a heavy-weight political figure, Mosbacher is being heavily tipped for a top job in Bush's re-election campaign.

The US department of commerce, like Britain's department of trade and industry, has a pretentious sounding name but it has not proved a happy resting place for ambitious political types. However, one name being mentioned – John Macomber, chairman of the Export-Import Bank – could help rebuild the department's influence.

A former successful chairman of Celanese Corporation, Macomber meets most requirements for the job: international business experience, Washington clout, and the confidence of the president (another old Yale hand). He is widely respected in corporate America for his ability to wring increased funding out of Congress and has removed questions about US export finance from the "ideological burner."

If the US intends to formulate a more aggressive trade policy, Macomber would be a more effective proponent than Mosbacher. Indeed, there will be few tears shed if the latter were to go. He has presided over a department with no major agenda and few accomplishments, rather like Britain's DTI.

Called to count

■ Still on the subject of Washington gossip, Clark Clifford, whose reputation as the wise old man of the Democratic Party has been undermined by the BCCI affair, has found himself being haunted by a ghost from the past.

When the former US defence secretary finally gets down to explaining why, as chairman of First American Bankshares, he failed to inform the Federal Reserve about BCCI's secret ownership, one of those he may have to face is likely to be less than sympathetic to his cause.

During the 1948 presidential election campaign Clifford's career was considerably advanced by a memo he wrote for Harry Truman. In fact Clifford only added a paragraph to the memo which was actually written by James Row who had been an advisor to Roosevelt. Row never did get even. The House of Representatives Judiciary committee is now looking into the BCCI case. Its chief investigator – James Row III.

Upside down

■ It is rare for any company that founded a major international industry to remain at the top of that industry for over a century. Indeed one has only to look at what has happened to some of Aluminum Company of America's famous Pittsburgh neigbours, such as Gulf Oil and Mellon Bank, to realise that Alcoa has stood the test of time well.

Hence there is more than usual interest in the management upheaval which Paul O'Neill, the first outsider to head Alcoa, has set in train. President Fred Fetterolf, an Alcoa veteran, has been forced into early retirement and not been replaced, and an entire layer of senior management seems to have disappeared. Although Alcoa is operating profitably, unlike some of its competitors, O'Neill seems intent on turning the 103-year-old company upside down.

Under the new structure, described as an "inverted triangle", Alcoa's 25 business units and its customers will come

"I have a dream – Waite marries John McCarthy and Jill Morrell."

first, not the Pittsburgh head office. It is not the first time that O'Neill, who was head-hunted from International Paper in 1987, has upset the inbred aluminium industry. But if he is not right then his own job may well be on the line next time.

Legal vultures

■ The BCCI affair is proving an irresistible lure to US lawyers. A flock of more than 30 swooped on a New York bankruptcy court on Friday at a hearing to determine whether BCCI would be given protection from civil proceedings.

Given that the fees the lawyers could command would have ranged from between $200 an hour for the more junior attorneys to $600 an hour for the big-wigs, the hearing must have been clocking up $10,000 an hour in lawyers' fees at a rough guess. But even these sums are pretty small beer compared with the amounts BCCI is said to have paid out in fees to lawyers who handled the drugs money laundering case against the bank and some of its offices in Tampa last year.

Masihur Rahman, former chief financial officer of the bank, told a Senate committee last week that the final legal bill was between $25m and $40m.

Milken's way

■ Michael Milken, the former king of America's junk bond market, may be behind bars but he is making sure no one forgets about him. He has hired hot-shot lawyer Alan Dershowitz – the man who won Claus von Bulow acquittal on charges he killed his wife – to get his 10-year sentence reduced and has been challenging the bankruptcy reorganisation at his old firm Drexel Burnham Lambert.

Meanwhile the planned refurbishment of the great financier's image is under way with the publication of one of the most lavish coffee-table books for many a moon. Weighing in at 8lbs, the 400-glossy page "Portraits of The American Dream" extols the "democratisation of capital".

This is a cunning little phrase. What it really appears to be about is junk bonds – sorry, high yield securities – since that is the common theme which links the 146 corporate profiles which make up the tome. Still, no one should be surprised. The masterpiece was compiled by Lorraine Spurge, one of Mr Milken's more devoted former employees, and even includes a touching picture of the great man surrounded by some well-behaved children and a choice selection of the companies' products.

It costs $100, unless you happen to be one of Drexel's ex-clients who get $25 off.

Cobbler's tale

■ Sign in the window of a Chicago shoe repair shop: time wounds all heels.

Charles Batchelor on UK clearing banks' new no-nonsense approach to small businesses

An ill wind for the entrepreneur

Britain's small-business owners seem set for an even tougher time when they go to talk to their bank managers over the next few months. The gloomy first-half figures announced by many of the big banks over the past 10 days appear to presage a frostier climate for the bank's small-business customers.

It is ironic that this chill should be setting in now, immediately in the wake of a campaign by small-business lobby groups to improve the deal they get from banks and following an unprecedented government investigation of the banks' shortcomings.

The banks' tough new approach is a reaction to the size of provisions which they have had to make against loans more than a reflex response to the embarrassment they have suffered. But the press attention on the issue undoubtedly touched a raw nerve. "Some of the comments which were made leveraged up the banks' response," commented one banker.

It is certainly uncanny how several of the banks pinpointed small-business lending as the area of their greatest losses; after all, studies have shown that many have only rudimentary systems for measuring the profitability of the different parts of their business.

But the clear message of the banks' statements over the past fortnight is that lending, and particularly small-business lending, will be subject to much closer scrutiny. National Westminster Bank, with 30 per cent of the small-business loan market, has appointed a senior executive to review and improve the way the bank handles its credit exposure.

Sir John Quinton, chairman of Barclays, has said that the bank will adapt its lending to small companies to take account of the greater risks involved. Pointing to Barclays's provisions against losses on small-business loans of £1m a day, he said less credit would be available and its price would have to rise.

So what does this mean in concrete terms for the way the banks deal with small businesses? Small-business executives in the banks have in recent days sought to reassure their customers that they are still committed to the small companies sector. "There has been no U-turn on lending to small business but we have to re-appraise our approach," said Mr Richard Cracknell at Barclays. "If you are in this business you are in it for the long term," commented Mr Andy Hunter, at NatWest.

But the tougher approach by the banks will mean:

● Further pressure on managers to charge commissions on a wide range of bank services. Lloyds Bank for example has recently begun making a £17 charge for telegraphic transfers which were previously free, said Mr Colin Moor of Taurus Financial Services, which advises businesses on their bank dealings. "Every bank is looking at every customer with regard to its commission charges," he noted.

● Managers will continue to review loan agreements and will increase interest charges where they consider this to be justified by increased risk. "There has been no directive from head office to push margins up but in some instances interest rates will go up to reflect the risk," said Mr Cracknell.

● Businessmen seeking finance can expect more intensive grilling about their business plans. "We will be asking more searching questions and challenging the underlying assumptions on which some of our customers make their requests for finance," says Mr Stuart White, manager of Midland Bank's enterprise unit.

Coupled with this more searching appraisal of their business plans, businessmen can expect to have their requests for finance turned down more frequently.

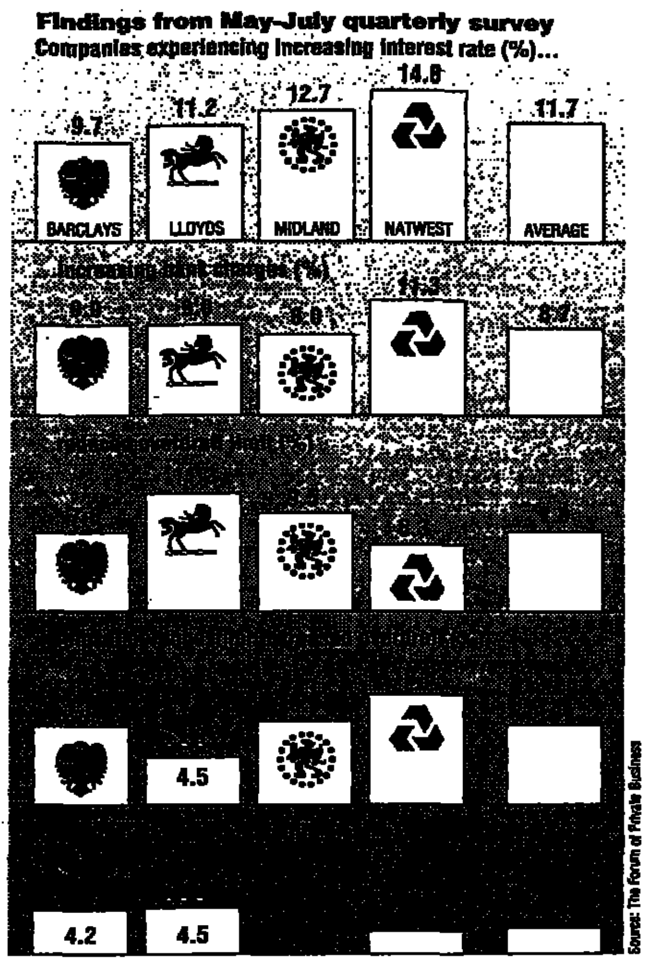
● The banks will be attempting to get small-business borrowers to provide them with fuller and more regular information on their performance.

In these four areas small businesses can expect a tougher time when dealing with their bank, though relief should come in the form of the small-business code proposed by Mr Norman Lamont, the chancellor.

The Lamont proposals include advance notice by the banks to their small-business customers of the terms and conditions of their accounts with one month's warning of any changes. But this plan has been met with scepticism by some of the small-business lobby groups. The Forum of Private Business pre-empted the government code with proposals for a written contract which would be signed by the bank manager and the customer. The customer would commit himself to meeting performance targets and keeping within approved loan limits in return for the bank manager's agreeing not to alter the terms of the account.

Mr Stan Mendham, chief executive of the Forum, rejected the government code as leaving too much power in the hands of the bank. Contracts would allow greater flexibility to individual bank managers and establish a more equitable relationship, he said.

But whether the banks agree to a code or a contract there are still large areas of bank practice which small-company lobbyists believe need to be improved. Incredible as it may seem, there is continuing resistance on the part of some bank managers to explain the basis of their charges to their customers. In one case dealt with by Taurus Financial Services a NatWest bank manager had doubled his charges to a customer on the grounds that he had been undercharged in previous years but refused to explain how he had calculated the increase. When Mr Colin Moor of Taurus, himself a former bank manager, discovered the formula the bank was using he was able to show his client was being overcharged.



Small-business lobbyists are pressing for even more fundamental changes in the way small business is financed in the UK. The Union of Independent Companies, representing smaller manufacturers, and the Small Business Bureau, a Tory party lobby group, are pressing for the creation of a special credit institution to provide low-cost, long-term finance to small companies.

Support for the idea among ministers and backbench MPs has increased in recent months while Treasury resistance has weakened, according Mr William Poeton, UIC president. A crucial element in the plan is the requirement that the banks, which would make the loan decisions, would have to drop their practice of taking a "floating charge". This is a catch-all security on assets which, the UIC claims, reduces the customer's ability to raise funds elsewhere and allows the banks to be less rigorous in their assessment of the actual business.

The lobbyists are also keen for the banks to provide loans rather than overdraft finance to meet small businesses' core working capital needs and for the banks to drop their right to recall overdrafts on demand.

In the present economic climate, with bank chairmen impressing on their managers the need for a return to sound banking principles, it is unclear just how receptive the banks will be to such proposals. But there are one or two positive signs. One of the banks is testing a scheme aimed at coaxing more regular financial information out of its small-business customers while another, Barclays, has launched a Business Growth Service to improve the quality of support and advice to its small-business customers.

Observers like Mr Colin Moor of Taurus are sceptical that the banks can change. The recession means that bank managers can pick and choose which customers they take on and they will have little incentive to improve the quality of their service. Others, like Mr Mendham, whose forum is continuing its series of regular banking surveys to keep up the pressure, believe persistence will pay off.

What is clear, though, is that in the aftermath of the excesses of the 1980s the banks are reluctant to be stampeded into unwise concessions to their small-business customers. The banking codes which are due to be announced within the next six months will be keenly scrutinised to see what, if anything, has been achieved by the recent burst of bank bashing.

PERSONAL VIEW

Time to rebuild the traditional family

By A H Halsey

Modern society has strange superstitions. I think the central one is the belief that if ego maximises his or her choices we are all better off. Put more portentously it is the fallacy that individual freedom is collective good. The family is the age-old disproof of this contemporary nonsense. The traditional family is the tested arrangement for safeguarding the welfare of children. The individual doctrine is an hallucination with two main sources. First is the spectacular advance of human power over nature, which has relieved so many of us from the life of toil that our grandparents took for granted.

Second, there is the developing assumption, so rampant in the 1980s, that the adult ego is self-sufficient. Children thereby become commodities – quality objects to be sure – but nonetheless things just like cars or videos or holidays which adults can choose to have in preference to other consumables. Everybody is free to buy the good life of his or her definition. Marriage becomes a mere contract.

Our ancestors were poorer but wiser. They knew that we are all dependent on one another. Atomised individuals calculate only for themselves and only for their own lives. Yet their very existence depends on calculation across generations. Few women and fewer men would rationally choose to have children in a world of exclusively short-term egotistical calculation. The costs and forgone satisfactions are too high. Hence rich countries which carry the modern ethos have declining or incipiently declining populations.

Nor is this the whole of the modern mirage. In reality the family is part of, not separate from, the economy. Parents are the main producers of tomorrow's wealth and we all consume what they produce. That is why we need a just political economy to ensure that the beneficiaries pay their dues.

Yet paradoxically our political economy, far from paying parents, punishes them for their folly in producing the producers of the future. Our system of taxation and social security is systematically biased against the family in favour of the childless adult, and increasingly so since the 1960s.

How can all this be turned round? I share the value position of the ethical socialist. Central to that position is the doctrine of personal responsibility under virtually all social circumstances. People act under favourable and unfavourable conditions but remain responsible moral agents. History heavily conditions them, their own actions eventually become history and therefore determine the future balance of favour and disfavour in the ceaseless effort to become good people in a good society. It follows that reproductive decisions are crucial to human destiny. Whatever the character of society or state, polity or economy, religion or culture, parents cannot escape responsibility for the quality of their children as citizens.

In the light of this political morality I see incontrovertible evidence of a weakening of the norms of the traditional family since the 1960s. It is not that I see a golden age of traditionalism. Nevertheless the traditional family system was a coherent strategy for the ordering of relations in such a way as to equip children for their eventual adult responsibilities.

The much-needed reform of the system required comprehensive strengthening of supporting health, education and security services if quality children were to be produced, women were to have freedom to combine motherhood with career and men were to be encouraged to take a fuller part in the domestic rearing of their offspring. Instead the evidence of more recent change is that the supporting services have deteriorated, the increment of economic growth has been transferred disproportionately to the individual pocket horizontally and to the rich vertically through the running down of family allowances, the raising of regressive national insurance contributions, the abandoning of joint taxation for spouses, the failure to fund adequate community care and so on. In the 1980s the economic individual was exalted and the community desecrated. Mrs Thatcher may be seen by dispassionate future historians as an architect of the demolition of the traditional family.

She was, to be sure, vigorously aided by other social and personal forces. No one can deny that divorce, separation, birth outside marriage and one-parent families as well as cohabitation and extra-marital sexual intercourse have increased rapidly. Many applaud these freedoms. But what should be universally acknowledged is that the children of parents who do not follow the traditional norm (taking personal, active and long-term responsibility for the social upbringing of their children) are thereby put at a disadvantage in the struggle to live a successful life. On the evidence, such children tend to die earlier, to suffer more illness, to do less well at school, to exist at a lower level of nutrition, comfort and conviviality, to suffer more unemployment, be more prone to deviance and crime, and finally to repeat the cycle of unstable parenting from which they themselves have suffered.

The evidence is formidable as well as tallying with commonsense. But we must be clear what the thesis does not say. The comparison is of averages. It is not to suggest that traditionally-reared children will all be healthy, intelligent and good; nor that children from parentally-deprived homes will all turn out to be sickly, stupid and criminal. Nevertheless it must be insisted that no contrary evidence is available to contradict the average differences postulated by the stated thesis. Accordingly, the conclusion must be drawn that committed and stable parenting must be a priority of social policy.

The author is professor of sociology at Nuffield College, Oxford.

LETTERS

Squaring up to international challenge

From Mr Brian Small.

Sir, Your columns have long baffled us with differing opinions as to duration, depth and end of recession. This ack ack flack is blinding our vision, especially those of us in manufacturing industry who know that achieving full global competitiveness is an even more imperative task than improving on last year's results.

Are we going to allow the loss of confidence caused by this recession to fritter away our hard-won gains of the 1980s? Even if everything went right from now we know 1-1.5 per cent growth in 1992 is the best we can expect (see recent estimate by Phillips & Drew).

When senior managers re-assemble after the holidays, they will find themselves at a critical moment in the annual strategic cycle of UK manufacturing. In my experience, September to February is the critical period in which strategic initiatives are launched. For those companies seeking to enter, or maintain, a serious presence in the world-class league, another year wasted may prove decisive.

This coming winter, we need very seriously to accelerate the restructuring of our businesses and to prepare them to compete on world-class performance levels; to take action on organisation, premises and inventory; to pump out the locked-up cash which will allow us to invest in new world-class products; to focus clearly on best niches. Despite interest rates being too high, the TUC's report on industry's challenge to invest (August 8) is correct: British industry should equip itself now to match its international rivals.

"Confidence" needs a long view of what we could and can achieve. British manufacturing simply cannot wait for inflation figures, elections, new Green Papers on industrial relations or the next warning report.

Brian Small,
managing director,
Ingersoll Engineers,
Bourton Hall,
Rugby, Warwickshire

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

TSB principles to simplify investment industry regulatory framework

From Sir Nicholas Goodison.

Sir, Barry Riley, in his article "Watchdog must be ready to bite" (August 9), says that the investment industry is resisting proposals to change the present system of polarisation due to vested trade interests and a reluctance to accept a solution which is in the interest of the consumer.

TSB Group was among the hundred or so contributors which commented to the SIB on its proposals for a review of retail regulation. We said that if polarisation were abolished or changed significantly, the TSB Group could respond positively to the change and would do so, aiming always to benefit customers.

There are three things that really matter. First, and above all, the quality of advice. The customer needs to know that he or she is dealing with a reputable name and is being offered a reputable product regardless of whether the salesman is independent, tied or multi-tied. Second, regulation should rely heavily on disclosure. The status of a salesman does not matter. All salesmen should be allowed to choose which provider of products and how many of them they wish to link themselves to, without constraint. But they should inform their customers of their position so that there can be no doubt about it. Third, there must be adequate means of redress. Following these principles would greatly simplify the regulatory framework.

In short, polarisation is artificial and restrictive.

We will repeat these views in response to the SIB's formal consultative document in the autumn.

Nicholas Goodison,
chairman,
TSB Group,
Head Office,
25 Milk Street,
London EC2

Gatt in urgent need of democratisation

From Mr Clive Robinson

Sir, Aside from his odd attempt to sit Nigel Lawson in Arthur Dunkel's chair ("Gatt needs a chairman who would span the political divide", Letters, August 6), Baron von Platen raises an important question. He is surely right to emphasise the political nature of Gatt; or, he might have added, of the structures which may succeed it at the end of the Uruguay Round. But it is not only politicians who have difficulty with access to Gatt.

The trade rules which it enforces affect the livelihoods of producers and consumers worldwide and impinge on other vital interests such as the developmental role of trade and the protection of the environment. Gatt is indeed concerned with power. The current direction of the Uruguay Round risks increasing the weight which Gatt already gives to the richer countries and the larger companies. The urgent need is to democratise it by affirming its role as a referee to ensure that the poorest producers and consumers are not overpowered by the heavyweights of international trade.

The debate about a new international trade organisation illustrates this. A new super-Gatt patterned on the International Monetary Fund and the World Bank would extend to the realm of trade the model of imposed economic power and leverage which has so undermined the accountability of Third World governments to their people. On the other hand, a new trade organisation established within the UN's one-country one-vote framework would be a step towards the democratic regulation of trade which the present system has failed to provide.

The need for reform in world trade cannot be satisfied by the Baron's top-down suggestion of a new political chairman. Gatt is suffering not so much from the political divide as from the democratic deficit.

Clive Robinson,
Food Matters Working Group,
Liaison Committee of
Development NGOs to the EC,
PO Box 100,
London SE1 7RT

When flotation is the wrong move

From Mr Malcolm Kitchen.

Sir, A lesson to be learnt from the 1980s is that not all companies are best served by moving from private ownership to public, quoted status. This is particularly true where the owner/manager retains personal interests which are closely related to those of the company. Brent Walker is one such company, and the Really Useful Group is another.

RUG is essentially a vehicle for exploiting the talents of Andrew Lloyd Webber, and as such cannot exist independently of him. Lex (August 6) condemns the City for putting taste before profit in its dealings with RUG, but once Mr Lloyd Webber expressed a desire to take the company private it would have been foolish for investors to stop him.

Now PolyGram has paid a price that reflects not only the equity but also valuable distribution rights and the extension of Mr Lloyd Webber's contract from 1993 to 2003. The real error of the City was not in its valuation, but in imagining that such a company would ever benefit from a flotation. One can only imagine that the advisers' fees were better than their judgment.

Malcolm Kitchen,
Durgates Lodge,
Station Road,
Wadhurst, East Sussex

Bootstrapped

From D B Harley.

Sir, One cannot but marvel at the mastery of metaphor shown by Mr William Gibson, chairman of the NAACP ("Black group opposes judge's nomination", August 1). While Mr. Gibson kindly appreciates that Judge Thomas "pulled himself up by his own bootstraps", his concern is for the "millions of blacks who have no access to the bootstraps"!

To which bootstraps is he referring? His own, or those of Judge Thomas, or perhaps some unattached boot straps suspended in space?

D B Harley,
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FINANCIAL TIMES
Monday August 12 1991

Study urges common approach on supervising cross-border activities

Call for unified rules on banks

By David Lascelles, Banking Editor

A MORE unified approach needs to be taken by governments towards regulating the activities of banks when they operate across national boundaries, according to a study by the Group of Thirty, a Washington-based think-tank.

It concludes that home country controls should be used when a bank supplies services across a border, but that host country controls should apply to foreign subsidiaries. Branches would best be covered by harmonising rules between home and host country or applying special host country rules.

The study, which was written before the Bank of Credit and Commerce crisis, pinpoints the difficulty of supervising banks which have branches in many countries – the problem which enabled BCCI to evade close supervision.

Its authors - Sydney Key, a Federal Reserve economist, and Hal Scott, a Harvard Law School professor, propose the creation of a forum where countries can agree a common approach.

"Despite the increasing internationalisation of the financial services markets, national regulatory systems still differ substantially," the authors say. They suggest that the General Agreement on Tariffs and Trade (Gatt) or the Organisation for Economic Co-operation and Development would provide the best forum.

The study defines two broad approaches: the foreign operations of banks can either be regulated as extensions of their domestic business, when they are subject to "home country" control, or they can be treated as local banks in the foreign country, where they would be subject to "host country control".

It shows how these twin approaches can best serve various public policy goals, such as ensuring competitiveness in the market, or protecting the soundness of the banking system.

The authors conclude that views will differ widely over the best approach, and that international agreement on the treatment of cross-border banking will require an effort that goes considerably beyond present intentions to regulate trade in financial services through the Gatt Uruguay round.

International Trade in Services: a conceptual framework. By Sydney J. Key and Hal S. Scott. $10. Group of Thirty, 1990 M Street NW, Suite 450, Washington DC 20036. Tel: (202) 331-2472

BCCI shutdown, Page 6
Editorial Comment, Page 12

Depositors line up to retrieve their savings from a Hong Kong branch of Standard Chartered Bank on Friday

Rumour fuels depositors' fears

Angus Foster on the continuing controversy over BCC (Hong Kong)

THE HUNGER strikers camped outside Hong Kong's Star Ferry terminal are beginning to weaken, lying motionless in the afternoon humidity. The protest by depositors in Bank of Credit and Commerce (Hong Kong), the local arm of Bank of Credit and Commerce International (BCCI), began five days ago.

It is the most visible reminder of the continuing controversy surrounding the government's closure last month of BCC (HK) – a row which caused a run on several of Hong Kong's banks and at times in recent days has looked like damaging political and financial confidence in the colony.

The perceived loss of confidence stems from the decision to try to keep open BCC (HK), a subsidiary of BCCI Holdings, when other regulators around the world had closed the rest of the group. Some 40,000 depositors in BCC (HK), who had first been told the bank remained sound, were told three days later it was to be closed down. Placards displayed by the hunger strikers claim: "We were robbed".

Last week Hong Kong officials thought they had weathered the storm, and that public sympathy with the BCC (HK) depositors was waning. But the government had not counted on Hong Kong's capacity to create rumours. Those rumours caused a minor run on Citibank, which has since subsided. Then, on Friday, about HK$3bn (£230m) was pulled out of Standard Chartered Bank as thousands in the colony panicked.

After half-day opening on Saturday, Standard Chartered branches appeared to be back to normal. The bank had strongly denied rumours it had lost its banking licence and stock market listing as "totally unfounded" and "completely untrue". A number of deposits were made over the weekend, including one of HK$500m from a regular customer. The bank now estimates the panic led to a net loss of deposits of HK$2bn.

Customers gave various reasons for getting their money out. They said they heard the rumours and saw the queues. But they also said they could no longer trust the government.

"The government told us BCC was all right, then they closed it. I won't put my money back in Standard Chartered until the government says it will support it," said one woman who withdrew her life savings on Friday.

Mr David Nendick, secretary for monetary affairs, said Hong Kong was used to over-reactions and last week's events should be put in context. "Built into the success of Hong Kong is a certain fragility and short-termism. Perhaps it is because the community still does not have deep roots," he said.

The government denies there is a loss of confidence and argues that people are naturally less prepared to listen to official statements in times of trouble. Nevertheless, the government asked the Hongkong Bank and the Bank of China group, the two largest banks in Hong Kong, to make a joint statement on Saturday stressing that the colony's banking system remained strong.

Bank crises are nothing new in the colony. In June 1989 the Bank of China group probably suffered higher withdrawals than Standard Chartered did last week as people expressed outrage at the Tiananmen Square killings and feared for their savings. There were several bank collapses in the 1980s.

However, this time there is also a feeling that Hong Kong is paying the price for China's agreement on the new airport planned for the colony, which was announced last month after long and difficult negotiations and which in effect gave China an increasingly influential role in the colony's affairs. Because the agreement was negotiated between Britain and China and will be signed by them, critics allege the Hong Kong government has become a lame duck.

Mr David Carse, commissioner of banking, has sought to justify the government's *volte face* on BCC, saying he tried to keep the bank open because it was not implicated in the fraud elsewhere in the group.

With the backing of the Abu Dhabi government, he believed it remained sound and viable. However, Abu Dhabi did not express its support and it was soon clear that Hong Kong would be affected by the closure of the rest of the group.

The government is now investigating if there is another cause behind the uncertainty. Mr Nendick said there was evidence of an orchestrated campaign to destabilise some banks in Hong Kong. He suggested the rumours could have been started by "a small group" of depositors in BCC (HK) or by parties close to BCCI wanting to hit back at Western banking regulators.

On Thursday several newspapers in Hong Kong and London, including the Financial Times, were told by anonymous callers of trouble at Standard Chartered. Proving that such reports were started systematically, however, will be difficult, especially in rumour-prone Hong Kong.

Yeltsin plan will extend presidential power and control

By John Lloyd in Moscow

MR Boris Yeltsin, the Russian president, has unveiled plans to greatly increase his power – including the appointment of "governor generals" in the republics and regions of Russia who would enforce presidential and government decisions.

The first of these presidential plenipotentiaries are to be named this week.

Mr Yeltsin's plan downgrades the Russian government and is a direct challenge to the leaderships of the 16 autonomous republics – especially to that of Tatarstan, which has an elected president in Mr Minimer Shaimiev and which claims independence.

It also emphasises to Soviet president Mikhail Gorbachev that Russia intends to take on most of the trappings and nearly all of the substance of independent statehood – in spite of its agreement to co-operate in a renewed Soviet Union.

Mr Yeltsin has also disclosed that four supreme bodies will be appointed to govern the Russian Federation's 150m people.

These will be the a state council of 15 members, including the head of the Russian KGB, the interior minister and personally appointed "counsellors without portfolio"; a Council of the Federation, which would deal with the autonomous republics and districts within Russia; a Security Council which would liaise with the Soviet KGB and Defence Ministry; and the Council of Ministers.

Mr Yeltsin, who visited the main oil producing region of Tyumen last week, said on his return that the oil and gas industries in Russia – the bulk of Soviet production – "should come under the jurisdiction of the Russian Federation before August 20" – the date the Union Treaty will be signed by the first republics.

In what would be a huge blow to central government finances, Mr Yeltsin said he will issue a decree exempting the Tyumen producers from paying the mandatory 40 per cent of their hard currency earnings to the centre – while saying that the amount of oil sold at freely set prices will rise from 10 per cent to 30 per cent from next January.

Mr Yeltsin is coming under increasing criticism from Russian democrats for agreeing to sign the Union treaty – which, in its final form, has been neither published nor debated by the republics nor by the Union Supreme Soviet.

The Coordinating Council of the Democratic Russia movement, which supports Mr Yeltsin, has appealed to him not to sign the Treaty before it incorporates a number of changes and before it is discussed in the Supreme Soviet.

They have also demanded that Russia sign it together with Ukraine – a republic which looks less and less likely to sign it this year, if at all.

Mr Witold Fokin, the Ukrainian prime minister, said on Friday that the treaty was "not satisfactory", and that the Ukraine could not agree to a unitary financial, credit and insurance system.

Party's criticism of Gorbachev increases. Page 2

Raising the summer temperature

The row over the marketing of BT, Stage Two, seems sure to run alongside the BCCI closure and the Japanese scandals as a diversion in what would otherwise be a flat season; and like them, it is likely (so far, at least) to generate more heat than light. The heat over BT is intense, but the arguments concern what are essentially fringe questions. The central ones go begging.

First, the background. The London stock market marked its estivation (the summer equivalent of hibernation) on Friday with a 30-point fall. Trading has become so sparse that any sizeable order can touch off a small avalanche, so nobody wants to be caught taking a position. The senior partners who normally handle such problems are away, hoping for sunshine. They are equally unpredictable if disturbed and this summer most of them are in a foul temper.

The glories of the spring bull run have faded, the rights issue spate has slowed and commission income is again hard to find. The second tranche of BT promised relief and thousands of lucrative new private clients; the Treasury decision to market it through a cartel of outsiders has thwarted this hope. Stockbrokers' MPs, lawyers and the Office of Fair Trading are already hearing their reactions. But one can also see the Treasury view, up to a point. The City has failed to infect the new investors who took up previous privatisations with the shareholding habit, to Mrs Thatcher's intense annoyance. Perhaps the banks could do better. People visit banks anyway and they can make investing as easy as dropping into the local betting shop. (A lot less exciting, though; did anyone suggest a smaller cartel – Ladbroke, Joe Coral and William Hill?)

This argument offers mild diversion, like watching dogs fighting over a bone; but does anyone apart from the dogs really care about the outcome? The row is also diverting in a different sense; it distracts attention from the real questions raised by the "failure" of privatisation. These are two.

Does the small follow-through from privatisation represent a failure, or does it just show that you cannot fool all the people even some of the time? And even if it is a failure, does it matter? Why worry if the ordinary citizen prefers to leave matters in the hands of his pension fund trustees? And if it is worrying, why do governments encourage this with tax breaks? (For a learned

By Anthony Harris

answer, see the Bank of England Bulletin today).

If it imagined that privatisation issues would be seen as an introduction to the ordinary joys and perils of shareholding, the government was fooling only itself. They were so many naked bribes, as somebody told Sid; and the market also took the message. The high market capitalisation of the regulated

Anything shareholding teaches about wealth creation is probably subversive. Those who learn from Tokyo that insiders get the ringside seats deserve higher marks.

monopolies poses awkward questions for those who like to claim that the stock market's main role is to finance new competitive enterprise. The market simply prices expected income flows, allowing for risk, and monopolies are less risky.

Now the risk has increased. The bribes were paid not by the government, but by the customers of the privatised utilities, whose directors lost any ministerial goodwill they may have expected when they took part of their monopoly rents in huge, embarrassingly-timed pay increases. Now the regulators are taking an aggressive interest in their pricing, and sending a clear message to the new investors: take the money and run.

You may regard this as a moral tale – though since virtue is protected and greed punished, it is more like a fable. You may regard it as an example of the market doing its stuff, and pricing risks and prospects pretty effectively. Ministers, however, clearly see it as another setback on the unexpectedly hard road to a shareholding democracy. Many people will share this view, without realising that it begs a much more fundamental question: not what is the best way to spread the gospel, but why bother at all?

This is a question that never seems to occur to the apostles of wider share-ownership; all those I have met think that their aim is self-justifying, like urging people to go to church. If you ask them why, they simply look baffled. Their view is shared by people who evidently don't think about it much: one of my first engagements on returning to the UK from Washington was at a conference of professional fund managers. They invited a leading share-ownership preacher to address them, and there was not a trace of irony in their applause when he explained that he was so far finding it difficult to divert much of their business, but would try harder.

Yet if you were advising a maiden aunt or a nephew who had just come into a few thousand, would you tell them to buy some shares and start studying the City pages? Surely not, when there are so many ways in which they could spread their risks and have their money professionally managed.

Ah, say the apostles, but our campaign is not just for the good of shareholders. It is for society as a whole. Wider share ownership encourages thrift, fosters enterprise, and spreads a wider understanding of wealth creation. I have heard this muddle-headed message not only from the core of true believers, but from political riders on the bandwagon from the Social Democrats and even right-wing Labour supporters.

There are two answers to it. First, if direct shareholding is the wrong answer for the individual shareholder, it is wrong for society, too. It does not encourage thrift – the US, with by far the widest spread of individual share ownership, has the lowest level of personal saving in the developed world. It has only marginally encouraged new enterprise – new flotations are on the whole taken up professionally, and those with a popular following often get over-priced.

In any case, shareholding is a way of buying an income, not an education. Anything it teaches about wealth creation is probably subversive: that wealth is created by monopoly, or price volatility. Those who learn from Tokyo that insiders get the ringside seats deserve higher marks.

Forecasts still gloomy on UK economy

By Jim McCallum in London

THE DEPTH of the UK recession is underlined today by a string of industrial surveys and private forecasts, all of which see no immediate end to the economic gloom.

The fresh evidence on the severity of the downturn comes at the begining of a testing week for the government when unemployment figures for July are expected to show a rise of 60,000 to 2.36m or 8.3 per cent of the workforce.

The government will receive better news on inflation. The July inflation rate, released on Friday, is widely forecast to fall to around 5.5 per cent on an annual basis, from 5.8 per cent in June.

In spite of the improvement in inflation and the evidence that the economy is still in recession, City analysts are not predicting an immediate reduction in interest rates.

The German Bundesbank council meets on Thursday and there is widespread belief in the markets that Mr Helmut Schlesinger will make his debut as president by responding to higher German inflation with a rise in interest rates.

With sterling under pressure within the exchange rate mechanism, many analysts believe that the UK government will have to await the response of the foreign exchange markets before reducing base rates, at present 11 per cent, despite today's further evidence of the impact of the recession.

A report released today says the recession in the construction industry shows no signs of slackening. According to the Federation of Civil Engineering Contractors almost half of the firms surveyed expect their workloads to fall over the next year and more than 50 per cent believe they will have to shed more jobs in the next 12 months.

Further bad news comes from a Confederation of British Industry report into small businesses which said confidence among small firms is continuing to fall. The survey found that 40 per cent of small companies were less optimistic about the general business situation, while only 13 per cent were more hopeful.

Oxford Economic Forecasting, a private consultancy, said it believed the UK economy had "hit bottom and will commence a very feeble recovery during the second half of this year."

According to the OEF report, any upturn will be muted because high interest rates are needed in order to keep sterling stable within the ERM.

City analysts believe the scale of the downturn will be revealed in the June industrial production statistics, which will show output running 8 per cent below last year, compared with a fall of 6.2 per cent in May.

The fall in inflation is having a modest impact on wage settlements. Average earnings in June are expected to have fallen to 8.25 per cent, down 0.25 point from May.

Despite the gloom, institutional investors are taking a more optimistic view of the UK economy and the UK equity market, according to a survey by Smith New Court and Gallup.

Details, Page 8

Israel under pressure

Continued from Page 1

The RJO said the release of Mr Tracy had been brought forward because of the "fast developments and the encouraging positive atmosphere of the current negotiations to solve the issue of our brethren detained in the prisons of the world."

The release of Mr Tracy, the first American to be freed in 15 months, leaves five Americans, two Britons, two Germans and an Italian in the hands of kidnappers in Lebanon.

Mr Abdollah Nouri, Iran's interior minister, said in the Syrian capital Damascus, that they all should be freed and insisted Tehran was doing all it could.

"We oppose, denounce and reject all hostage-taking actions," he said.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	27	81	Bordeaux	S	28	82	Dallas †	C	23	73	Innsbruck	S	28	82
Algiers	C	24	75	Boulogne	C	17	63	Dublin	F	19	66	Inverness	C	15	59
Amsterdam	F	21	70	Bristol	Dr	19	66	Dubrovnik	S	31	88	Isle of Man	F	19	66
Athens	S	34	93	Brussels	C	19	66	Edinburgh	C	15	59	Istanbul	F	29	84
Bahrain	S	36	97	Buenos Aires	-	-	-	Faro	S	29	84	Jersey	C	17	63
Barcelona	F	25	77	Budapest	S	27	81	Florence	S	33	91	Johannesburg	S	17	63
Belfast	F	17	63	Cairo	S	34	93	Frankfurt	S	31	88	Las Palmas	F	22	72
Belgrade	S	28	82	Cape Town	S	17	63	Geneva	S	27	81	Leeds	F	18	64
Berlin	C	24	75	Cardiff	C	19	66	Gibraltar	S	25	77	Lisbon	S	25	77
Biarritz	S	23	73	Chicago †	S	14	57	Glasgow	F	17	63	Locarno	S	30	86
Birmingham	C	19	66	Cologne	F	23	73	Guernsey	Dr	16	61	London	C	17	63
Blackpool	C	16	61	Copenhagen	F	23	73	Helsinki	F	19	66	Los Angeles †	F	19	66
Bombay	F	29	84	Corfu	S	34	93	Hong Kong	C	29	84	Luxembourg	S	27	81

		°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	29	84	Nairobi	F	19	66	Prague	F	26	79	Tangier	S	29	84
Madrid	S	28	82	Naples	S	30	86	Reykjavik	C	12	54	Tel Aviv	F	29	84
Majorca	S	[illegible]	[illegible]	Nassau	-	-	-	Rhodes	S	32	90	Tenerife	S	26	79
Malaga	S	26	79	Newcastle	C	17	63	Rio de Janeiro	-	-	-	Tokyo	F	28	82
Malta	S	31	88	New Delhi	S	34	93	Rome	F	28	82	Toronto †	C	15	59
Manchester	C	17	63	New York †	S	27	81	Salzburg	S	29	84	Tunis	S	33	91
Melbourne	C	12	54	Nice	S	27	81	S Francisco †	S	14	57	Valencia	F	24	75
Mexico City	-	-	-	Nicosia	S	30	86	Santiago	-	-	-	Venice	S	30	86
Miami †	S	27	81	Oporto	F	22	72	Seoul	C	29	84	Vienna	F	29	84
Milan	S	32	90	Oslo	S	20	68	Singapore	F	32	90	Warsaw	F	24	75
Montreal †	C	17	63	Paris	S	25	77	Stockholm	R	16	61	Washington †	S	22	72
Moscow	C	18	64	Peking	C	32	90	Strasbourg	S	29	84	Wellington	F	11	52
Munich	S	27	81	Perth	S	19	66	Sydney	S	17	63	Zurich	S	26	79

Temperatures at midday yesterday † Noon GMT temperatures C – Cloudy Dr – Drizzle F – Fair Fg – Fog H – Hail R – Rain S – Sunny Sl – Sleet Sn – Snow T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday August 12 1991

INSIDE

French lesson for US insurer

The proposed French-led restructuring of Executive Life (ELIC), announced last week, has been described as one of the most complicated transaction for years. Nikki Tait looks at attempts to breathe new life into the US insurance company whose failure set alarm-bells jangling all the way to Capitol Hill. Page 17

Geevor prepares for battle

A small, 118-year-old UK mining company, Geevor, is preparing to do battle in the courts with Canada's second largest bank, the Canadian Imperial Bank of Commerce, which called in a £1.1m ($1.98m) loan to the company last February. Although the odds seem stacked against Geevor, whose chairman is Mr Mark Wellesley-Wood (left), a group of institutional shareholders has given Geevor £750,000 of new money with £100,000 earmarked "for the pursuit of Geevor's legal action". Page 16

Salomon breaks the rules

The talking point on Wall Street last week was the announcement by Salomon Brothers that its bond department had broken Treasury auction bidding rules. The disclosure by the securities house on Friday could not have come at a worse time for proponents of self-regulation in the US government securities markets, write Patrick Harverson and Martin Dickson. Page 18

Milan sets dealing date

Dealings in Bayer and Volkswagen, the first two foreign companies to have their shares traded on the official listing of the Milan stock exchange, are expected to start on 19 August. Page 17

Bundesbank to call the shots

Mr Helmut Schlesinger, new president of the German Bundesbank, will be calling the shots in the gilts market this week. Although the Federal Reserve eased US monetary policy a touch last week, a rise in the German discount rate by 1 percentage point to 7.5 per cent is still regarded as a certainty on Thursday, while the Lombard rate is expected to rise by half as much to 9.5 per cent. Rachel Johnson reports. Page 18

Market Statistics

Companies in this issue

Black pulls out of regional press sale

By Raymond Snoddy in London

MR CONRAD Black, Canadian chairman of the Daily Telegraph, has withdrawn, at least for the present, from the planned sale of the Birmingham Post and Mail group.

Mr Black put in the highest bid for the UK newspaper interests of Mr Ralph Ingersoll, the first US publisher to buy into the British regional press. The price being sought for the Birmingham Post and the Coventry Evening Telegraph was around £100m ($171m).

The Telegraph chairman, who has ambitions to build a strong presence in the regional press withdrew, it is believed, after a closer look at the finances of the group which, like all UK newspapers, has been affected by the recession.

Mr Black could return at a lower price. At the moment he is involved with Mr Terry Packer in manoeuvring to buy the Fairfax newspaper empire in Australia and would, if successful, take a stake of around 20 per cent.

The chairman of the Telegraph is also seeking to acquire newspaper interests in South Africa and continental Europe.

Mr Ingersoll has been in financial difficulties because of his enthusiasm for expansion with the help of high-interest junk bonds combined with the effects of recession. He is understood to be selling the Birmingham Post and Mail group and his 50 per cent holding in the Irish Press separately. Mr Black has no serious interest in acquiring half of the Irish Press.

The main contenders for the Midlands newspapers, unless Mr Black returns to the negotiating table, are likely to be EMAP, the newspaper magazine and exhibition group, and Reed International, one of the largest local and regional publishers.

When he first arrived on the UK newspaper scene in 1987, Mr Ingersoll, whose father had been publisher of both Time and Life magazines and founder of a short-lived socialist New York evening paper in the post-war years, looked as if he would become a major player.

Last year huge borrowings led to an agreement with his bankers and partners, Warburg Pincus, under which Mr Ingersoll gave up his US newspaper interests in return for full control of the British and Irish titles.

Mr Ingersoll believed that Britain would become the dominant economic force in the European Community by the turn of the century, and that Midlands manufacturing would be one of the reasons.

The sale of the Birmingham Post and Mail could mark the end of his British newspaper ambitions.

With little information to go on, investors seem unlikely to return with much confidence to funds that invest in unquoted companies, writes **Norma Cohen**

Credibility gaps in a question of trusts

Investment trusts that put money into unquoted companies are in the dog house.

Share prices in this specialised sector of the UK investment trust market have fallen by 25 per cent in the past year while, overall, investment trust shares have risen by 10 per cent.

Equally significant, their shares are languishing at significant discounts to their stated net asset values – a sure sign that investors have little confidence in the asset valuations they are presented with.

The scale of the credibility gap is revealed in figures by County NatWest Wood Mackenzie, a broker specialising in the sector.

According to County, the average discount on unquoted company investment trusts is now more than 35 per cent. That compares with typical discounts of between 10 per cent and 12 per cent for trusts that invest in small quoted companies, whose profile is roughly the same as those in the unquoted sector.

As a result, valuation methods used by unquoted company funds – and the timing and nature of disclosures about their financial well-being – have become burning issues for investors.

The issue, analysts say, is not that investors believe that unquoted companies are floundering but that they fear they are paying too much when buying shares in an investment trust. which puts its money into such companies.

Public confidence in unquoted company investment trust balance sheets has been shaken by the likes of Gresham House, which last month announced its assets had fallen by 80 per cent, and Ensign Trust which in May announced asset values more than 50 per cent lower.

The fact that such hefty write-downs were taken on with such speed has left analysts and investors with the impression that assets had been baldly overstated.

"Quite a large number of investment trusts value their portfolios using unsound investment principals," said Mr Iain Tulloch, investment manager at Glasgow-based Murray Johnstone. "And we're all tarred with the same brush."

Asset valuations are the responsibility of a funds' directors, though they need to be agreed with auditors. The method of valuation varies between investment managers and there are no uniform rules for valuations, making comparisons among unquoted company investment trusts difficult.

Investors in unquoted company or venture capital trusts are particularly vulnerable. Little information is available publicly on their financial condition or business prospects. And those who buy shares in such funds rely on the fund manager's assessment.

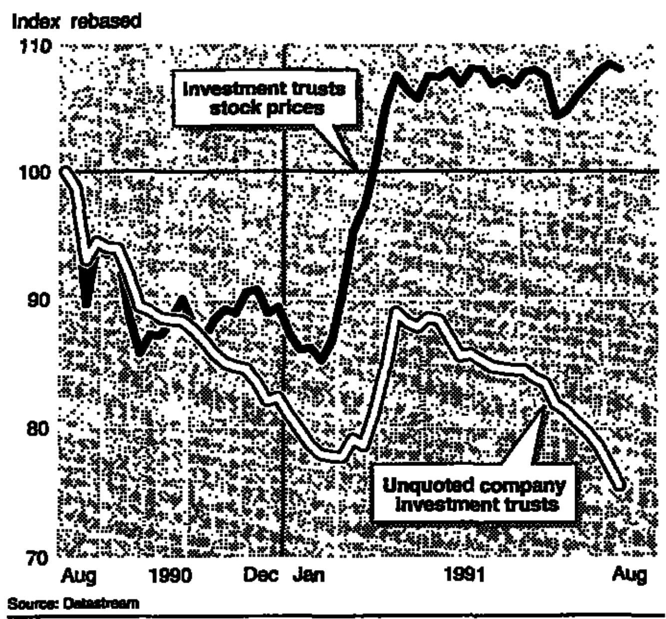
Earlier this year, the British Venture Capital Association adopted guidelines for conservative and consistent valuations of assets.

The guidelines urge that assets be shown at cost. They should be revalued when significant arm's-length transactions with third parties suggest that the asset is under-or over-valued.

Furthermore, when an investment underperforms, a single, large write-off should be made, rather than a series of smaller write-offs. The BVCA also urges that holdings be sufficiently discounted to reflect a lack of marketability of the underlying shares.

Among other things, the BVCA urges that non-executive directors play a role in valuations.

Just what effect the BVCA guidelines would have if adopted industry-wide remains unclear. But a glimpse may be seen from Renaissance Holdings, which last May delayed releasing its year-end results to allow them to be restated to reflect the new rules. In July, administrators were called in.



Source: Datastream

Shares in investment trusts trade at discounts or premiums to net asset value, depending on whether investors believe the assets are more or less valuable than the fund manager – and its accountants – say they are.

"In our view the market is overcompensating for lack of knowledge," said Mr Donald Adamson, a consultant with CNWM.

Meanwhile, investment managers are reluctant to discuss in detail the fortunes of their underlying investments or how they are valued. To do so, they say, could send a weak company over the edge into insolvency.

Consider the case of Newmarket Venture Capital, which last Friday reported a half-year loss of £421,000 ($719,910) and said it had completely written off three UK-based investments in its portfolio.

Ms Caroline Vaughan, chief executive, declined to name two of the investments, but said a third had gone into receivership since the half-year end.

The company involved was B.G. Laser, a Midlands-based provider of laser contracting services to the engineering industry.

That holding was valued in Newmarket's portfolio at £800,000, well over its £300,000 original cost. Ms Vaughan said that B.G. Laser was covered in a general £400,000 to £500,000 provision that, in retrospect, may have been too small.

Newmarket has declined to tell investors exactly what increase has been made in its general provisions, saying it will only do so at fiscal year-end.

Or consider the case of Drayton Consolidated, a fund investing in both quoted and unquoted companies with £201m in assets. Its share price skidded sharply last week to a low of 195p from 214p the week before as investors speculated about the funds' actual exposure to the unquoted companies sector.

In particular, the markets were concerned about the valuation of the fund's largest holding, CM Group Holdings which owns City Merchant Bank where profits had fallen sharply in the last year.

In an effort to brake the price slide, Mr Peter Knapton, Drayton's director, last Thursday released details of the trust's exposure to the unquoted sector, saying that equities and loans totalled slightly more than £90m. Analysts had believed that, as of July 26, equity alone had totalled £71m.

However, Mr Knapton said Drayton did not expect to make any downward revision to net asset values before the fiscal year-end on September 30 and he said CMB was adequately capitalised.

He declined to be drawn on exactly how much in new loans had been extended to companies in which Drayton has a stake or the nature of the contingent liabilities.

With little information to go on, and a lack of confidence in the figures that are available to them, investors seem unlikely to return with much confidence to unquoted company funds.

Bids for TV franchises face harsh criticism

By Raymond Snoddy in London

THE method of awarding new commercial television licences in the UK is denounced in a report today as "possibly the most ludicrous in corporate history."

Stockbroking firm James Capel argues that existing ITV companies and greenfield bidders have been players in a farcical "highest bidder" contest for the new Channel 3 licences to run from 1993 to the year 2002.

The contrast, for example, between the TVS bid of £54.1m ($92.5m) at current prices and the less-than-£1m bid by Central, which guessed correctly that it was unopposed, would have a dramatic effect over the 10-year franchise. TVS, if it retains its licence, would pay £750m more than Central to the Treasury.

"As a result, there is going to be a dramatic polarisation of profitability among the Channel 3 contractors from 1993 onwards," says James Capel analyst, Mr Neil Blackley.

Many bids reflected what James Capel believes are over-optimistic forecasts of advertising growth – in one case up to 7 per cent a year in real terms.

The firm believes there will only be 2.6 per cent a year real growth during the new franchise period and the level from which this is achieved is falling monthly because of poorer-than-expected advertising revenues this year.

The Capel report points out that although TV advertising grew 6 per cent a year in real terms during the 1980s, when Channel 4 and TV-am figures are stripped out, the growth was only 3 per cent a year. This is well below the forecast of most bidders for the period after 1993, despite the growing competition from cable and satellite.

The hope of winning franchises and the likelihood of automatic renewal next time if they have done a good job, encouraged many bidders to justify high bids through unrealistically optimistic forecasts of the growth in TV advertising.

UBS Phillips & Drew, in a new note about the ITV sector, also expresses a largely bearish view. It warned that the 16 ITV companies, all but Channel 3 publicly quoted, could over-bid to try to retain their franchises.

"The TVS bid and widely publicised rumours of other bids support this view. We estimate that over a quarter of Channel 3's advertising revenue will be going into the Treasury's pocket in 1993. This will leave little or no profits for TV companies and their shareholders," Phillips & Drew argues.

Economics Notebook

Missed targets on Spain's road to ERM

THERE are two economic certainties in Spain. The first is that the Government finds it difficult to resist the temptation to make specific predictions about how the economy will perform during the year. The other is that it is usually wrong.

Such lapses would normally not matter in Spain, where people tend not to listen to anything anyone else says. But this year's missed targets have begun to matter so much that Spain's Finance Minister, Mr Carlos Solchaga, is closer than he ever has been to losing his job.

He probably will not, for the being at least. The prime minister, Mr Felipe Gonzalez, cannot abide making cabinet changes and Mr Solchaga, unless he is offered the presidency of a large bank or company, has nowhere else to go. But the atmosphere is nasty.

Mr Solchaga is a tough conservative fighter for financial prudence in a free-spending socialist party. He promises to deliver the sort of modern, tough, streamlined economy into the European Economic and Monetary Union which Mr Gonzalez craves for Spain.

Mr Gonzalez has listened to Mr Solchaga, not because he understood the implications of converging a developing economy to French or West German levels, but because he was one of the few who said it could be done.

Spain wants phase two of EMU to begin in 1994. By then it should have brought its high inflation and interest rates into line with the best performers in the community. The country will then be able to place its currency in the narrow exchange rate mechanism band where, with the D-mark and the French franc, it will fluctuate by only 2.25 per cent.

It is the prospect of failing, and of being forced into the back row of a two-speed Europe, that appals Mr Gonzalez and endangers Mr Solchaga.

Mr Solchaga's main problem is that while he is a fine Finance Minister, he is not a very good politician. The Socialist left – which controls the governing party – have been trying to drop him for years. He irritates them with his textbook market economics, his dismissive manner, his voice. Everything.

Their big break began opening in the spring, when Mr Solchaga tried to reach a a productivity-for-pay deal with the unions which he said was essential to help cut inflation.

He knew perfectly well the unions would not agree and when they formally refused he called a press conference in late July to announce a $3.1bn cut in public spending for the rest of this year.

The budget deficit for the first six months had overshot the $5bn planned for the entire year because of excessive public spending. Tax increases next year seemed "inevitable".

This was a well-prepared I-warned-you to a government and party which he felt had not fully appreciated the work involved in "converging" and it was followed by an acrimonious six-hour extraordinary cabinet meeting. Some party executive members openly began calling for his removal.

Worse was to come last week, when the Bank of Spain published its half-yearly report on the economy. GDP was growing just 2.4 per cent, it said, while the minister two weeks earlier was predicting 3 per cent for the year. While the minister saw faster growth in the last half, the bank implied this could only happen if the public sector continued recklessly pumping up demand.

Carlos Solchaga: nowhere else to go

The rest of the country, the private sector, is in a daze. Industrial output is falling. Investment is stagnant. Inflation has risen slightly to 6.3 per cent since January (July price figures today may improve things). The Treasury, once flush with cash, has cut yields on its paper so much – in the belief that the budget deficit would be adhered to - that, now that it needs money again, it has had to borrow some $3.5bn from the bank.

While the government has been squeezing credit for two years, it has been printing money for itself. The $3.5bn has to be paid back before the end of the year, meaning it will have to raise interest rates sufficiently to draw buyers back to its auctions or issue a special bond.

Mr Solchaga is caught in a trap. To get out of trouble he needs to cut rates and sustain the cut without re-igniting consumer demand. Some foreign economists believe this can be done and if he makes his budget cuts stick for the rest of this year he may have a chance.

But 1992 is five months away and few of his cabinet colleagues are going to sit back and let his next budget prevent Spain's big year being a happy and joyous event. Noting that a general election has to be held by October 1993, here then, is what may happen:

Although there are other pretenders to the Finance Ministry, Mr Gonzalez has little choice but to continue listening to Mr Solchaga. Any rival who tried to convince the Prime Minister the peseta could enter into the narrow ERM band without further dramatic cuts in public spending would be lying.

Mr Solchaga's packaged promise – that economic growth and falling inflation and interest rates at home, and entry into the tight ERM, are all possible – has not been totally derailed by this summer's events. But with the pressure on him, his instinct will be to charge ahead and put the economy where he wants it to be.

Thus the 1992 budget will be expansionary in order to avoid another deficit overshoot and to calm party critics.

By next October, if the Olympics and the World Fair have ended successfully, Mr Solchaga will rush the peseta into the narrow 2.25 per cent ERM band, the immediate political effect of which would be to satisfy voter taste for brave and decisive gestures.

Interest rates might have eased just enough to make the move appear credible. Mr Gonzalez will then call an early election, before the horrors of holding the peseta still become apparent. And after winning it, he may pick another finance minister.

But, by then, Mr Carlos Solchaga will have done his job.

Peter Bruce

BT sell-off plan to woo investors

By Roland Rudd

THE British government plans to set aside more than half of the second tranche of BT shares to be floated in November for the UK retail market.

Mr Francis Maude, financial secretary to the Treasury, will today announce that the privatisation, consisting of about half the government's 47.8 per cent stake in BT and worth more than £5bn ($8.5bn), will be sold through eight "preferred retailers".

Mr Maude hopes investors will establish a relationship with one of the eight, which will include the four main clearing banks, and continue to buy and sell shares other than those of BT after the sale.

Government advisers believe that up to 40 per cent of BT shareholders may sell their shares after the flotation.

According to the government's Share Register Survey the evidence of the privatisation issues of the past decade is that the number of private shareholders drops dramatically after the first year, to the benefit of the institutions.

The government hopes today's initiative will persuade investors who buy BT shares with the intention of selling them later to make a quick profit, to swap them for shares in other popular stocks.

The eight preferred retailers will offer the same special discount on the commission for buying and selling shares in other private companies.

As long as the Government's campaign to boost wider share ownership in the UK is successful more than half the BT shares will be allocated to the UK public – the biggest slice of any privatisation yet.

British institutions would then have to compete with their foreign counterparts for the rest of the shares.

COMPANIES AND FINANCE

Odds even up over tin clash in Cornwall

Kenneth Gooding on a new phase in Geevor's fight for survival with a Canadian bank

AN extraordinary conflict between a small, 118-year-old UK mining company and Canada's second-largest bank is about to enter a new phase.

The company, Geevor, refused to lay down and die when the Canadian Imperial Bank of Commerce called in a £1.1m loan last February.

That was mainly because its chairman, Mr Mark Wellesley-Wood, who joined Geevor only a year ago from Kleinwort Benson, the merchant bank where he was a director and head of the mining department, refused to buckle under.

"As a rugby player I was a prop forward so I guess it is not in my nature to give in easily," he says.

Mr Wellesley-Wood has been fighting on two fronts since CIBC pulled the rug from under him.

He has been closing down or selling off assets to prevent the company from going belly-up while at the same time preparing to do battle with the bank in the courts.

The odds seemed stacked against Geevor because CIBC is the tenth largest bank in North America and well capitalised.

In contrast, even before CIBC put its future in doubt, Geevor's market worth was only about £4.5m.

However, a group of institutional shareholders came to Geevor's aid and helped to even up the odds. They provided £750,000 of new money and specifically allocated £100,000 of it "for the pursuit of Geevor's legal action in both the UK and the US for damages against the CIBC."

Some of the UK investment managers behind this decision were upset about CIBC's behaviour. Just six weeks after supporting a placing of Geevor shares to raise £2.1m to fund an acquisition in the US, CIBC called in its loan. It claimed there were two defaults on loan agreements and had Geevor's bank accounts frozen.

Geevor claims that CIBC was aware of the defaults at the time it agreed to support the placing.

Money from the placing eventually went to pay off the CIBC loan to avoid a receiver being put in to Geevor, but this meant that the US acquisition, which would have provided Geevor with vital cash flow, was killed off.

Geevor is claiming damages of at least £5m from CIBC and Mr Wellesley-Wood said at the weekend that the company had reviewed its case against CIBC with its legal advisers and consulted leading counsel. "The board is of the view that the case has considerable merit and consequently will continue to pursue it."

He said Geevor intended to take the unusual course of extending its claim to cover both the actions of CIBC and certain of the bank's employees in operating Geevor's accounts after January 15 this year. Geevor is claiming their conduct was not lawfully justified.

CIBC is sticking to its policy of not commenting on the business of any client or former client.

Shareholders who contributed to Geevor's fighting fund included Fidelity, Midland Montagu, Assicurazioni Generali, Dimensional, Mercury, T&N Pension Funds, James Capel, M&G and Albert E Sharp. They are all clients of Smith New Court, Geevor's financial adviser.

Mark Wellesley-Wood: an ex-rugby player who says it is not in his nature to give in easily

Geevor has been unable to find alternative banking arrangements and an attempt to merge its way out of trouble by joining with European Mining Finance, a Bermuda-registered, Luxembourg-quoted investment company, foundered in May.

Geevor has closed its US coal mining operations and put its Mainband coal mine in Cumbria on a care and maintenance basis. It sold all but 7 per cent of its Ecuador gold mining operations to the management at a £3.3m loss. Exploration work is still going on at another gold project in Costa Rica where Geevor hopes to attract a joint venture partner.

Geevor's oldest asset, the tin mine which dates back to Phoenician times at St Just, in Cornwall, seems likely to be sold soon to a group of local businessmen who want to develop it as a tourist centre. The plant and equipment has been sold separately.

Geevor cannot afford to keep pumping out the mine and Mr Wellesley-Wood says that, unless a buyer switches the pumps back on before September, the pump room will be flooded during that month and the mine will be "irretrievable."

He says that by the end of August the company, which had 280 employees when he moved in, will have not one on contract.

Geevor's shares, which have been up to 80p in the past 18 months followed by placings at 38p and 25p, are languishing at a nominal 2¼p, giving the company a market value of about £1m.

There is no debt. "We are more or less a clean shell company," says Mr Wellesley-Wood.

He says the board believes it is in shareholders' interests that the legal action against CIBC be pursued vigorously "as it was shareholders' funds, raised for a specific approved purpose, which ultimately went to repay CIBC."

Mr Wellesley-Wood adds: "The questions raised by CIBC's behaviour have wider implications for investors generally in asserting the rights of shareholders against those of contractually bound lenders to companies."

Americas at the fore of last week's international activity

By Brian Bollen

THE AMERICAS featured in several of last week's international mergers and acquisitions including the two latest moves in the consolidation of the world spirits industry.

Cash-rich Guinness continued its international expansion with the acquisition of Industrias Pampero, Venezuela's largest spirits company.

Guinness, which has been buying heavily in recent months as part of its strategy of buying strong domestic brands to complement its established international brands, bought a Venezuelan distributor earlier this year.

American Brands of the US will become the third-biggest producer of Scotch whisky if it succeeds in its hostile bid for Invergordon Distillers, through its UK subsidiary Whyte & Mackay.

Spanish state-owned airline Iberia's purchase of a large stake in Viasa, Venezuela's flag carrier, furthers its efforts to buy market share in Latin America and establish itself as the major carrier between the region and Europe. It previously bought management control of airlines in Argentina and Chile.

The mirror image joint ventures between glass makers Corning (US) and Vitro (Mexico) continue the trend for joint ventures to be set up in anticipation of the lifting of trade barriers between Mexico and North America.

WH Smith will raise some £20m less than expected from the sale of most of its television interests to a Franco-American consortium. The company is disposing of its travel business and its television holdings, with the exception of Yorkshire TV, to concentrate on retailing.

The pick of the week's continental European deals included Arjo Wiggins Appleton's purchase of a majority stake in Buhl, a German specialist papermaker.

This is the Anglo-French group's first big acquisition since it was created by the merger last December of Wiggins Teape Appleton and Arjomari. Its strategy is to move from commodity paper production into the faster growing high value added speciality paper market.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Whyte & Mackay (US-owned)	Invergordon Distillers (UK)	Drinks	£286m	Whisky chaser for American Brands
Corning (US)/Vitro (Mexico)	Corning Vitro (JV)	Consumer houseware	est £176m	All done with mirrors
Britannia Life (UK)	Crusader Insurance (US-owned)	Insurance	£51.5m	Sale by Cigna Corp
International consortium	Unit of WH Smith (UK)	Television	£45m	Amount less than expected
Guinness (UK)	Industrias Pampero (Venezuela)	Drinks	est £45m	Guinness continues international thrust
Arjo Wiggins Appleton (UK/France)	Buhl Group (Germany)	Paper manufacturer	£20m	AWA's first big buy
IMI (UK)	REM Holdings (US)	Refrigerated products	£10m	Cash deal
Altwoods (UK)	Enviro-Solutions (US)	Waste processing	£6m	Profit-related price
Wheesoe (UK)	Connex Pipe Systems (US)	Piping	£5.5m	Cash deal
Sandvik Saws & Tools (Sweden)	Milford Products (US)	Hand tools	n/a	Sandvik widens product base

Source: FT Mergers & Acquisitions International

COMPANY NEWS IN BRIEF

BETA GLOBAL Emerging Markets Investment Trust had a net asset value of 101.5p (96p) at June 30. Net revenue for the six month period rose from £574,000 to £987,000 for earnings of 3.8p (2.4p) per share.

BOOKER has sold its Dixon Pork and Bacon Company, formerly part of Fitch Lovell, to Dalehead Foods Holdings for £4.25m cash.

EX-LANDS has received acceptances in respect of 12.14m new ordinary shares (75.76 per cent) of its £17.08m rights issue. Those shares not taken up were placed in the market at the 31p issue price.

GREENACRE GROUP has called second and final instalment of 35p per share payable in respect of the convertible redeemable preference shares. The call raises an additional £3.7m to fund further expansion. The group is in talks regarding the acquisition of two nursing homes for an aggregate cash sum of £2.4m.

HANSON has disposed of its wholly-owned subsidiary, Teddington Bellows, part of Hanson Amalgamated Industries, to WAHLCO Environmental Systems, for £930,000 in cash. Teddington made pre-tax profits of £128,000 on turnover of £3.9m in the year to September 1990. The net assets being sold are about £680,000.

MEYER INTERNATIONAL is to acquire Guildway, a specialist maker of timber frame buildings, from the receiver. Guildway has annual turnover of some £4m.

SIMON ENGINEERING has acquired the business and assets of Lifteco, an Italian manufacturer of access equipment, for £300,000 in cash. A new company, Simon Access Italia, will distribute Simon Access products and manufacture the range of Lifteco truck-mounted access platforms.

THORNTON PAN-EUROPEAN Investment Trust: Net asset value 32.8p at June 30 against 39.6p a year earlier. Net revenue for half year was £125,235 (£51,565) for earnings per share of 0.63p (0.88p). As usual there is no interim dividend.

WACE GROUP has paid an initial $500,000 (£300,000) cash for Bianca Graphics; a further performance-related consideration of up to $3m may be payable. Bianca is a pre-press company based in Manhattan and primarily services major companies in the cosmetic and direct mail industries.

WALKER GREENBANK wallcoverings group has sold its Gimson Tendercare stair lift manufacturing company to Thyssen Lifts for £1.5m, leaving it with only one non core business to sell. It has also sold surplus property for £1.1m.

Bank of Montreal share repurchase plan

BANK OF Montreal plans to repurchase, before December 31, up to 5.5m of its class A preferred shares series 3 through the Toronto Stock Exchange and the Montreal Exchange, AP-DJ reports.

The bank said any repurchases would be at market prices, but they would not exceed C$25.60 a share, for a maximum of C$140.8m (US$122.4m). The repurchases will begin on August 12.

The bank said it had appointed Nesbitt Thomson as its agent and broker.

There are 11m series 3 shares outstanding, which are redeemable until February 1 1992 at C$25.60 a share plus accrued dividends, and thereafter at declining premiums.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 11.08.91: Pool purchase price £/MWh	Final Prices for Trading on 14.07.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.71	18.54	21.75
[illegible]	[illegible]	[illegible]	[illegible]

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 12.08.91: Pool purchase price £/MWh	Final Prices for Trading on 15.07.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.25	18.26	20.30
[illegible]	[illegible]	[illegible]	[illegible]

... capable of revision.

NGC Settlements Limited

BASE LENDING RATES

	%		%		%
Adam & Company	11	Co-operative Bank	11	McDonnell Douglas Bk	11
Allied Trust Bank	11	Coutts & Co	11	Midland Bank	11
AIB Bank	11	Cyprus Popular Bk	11	Mount Banking	11
● Henry Ansbacher	11	Dunbar Bank PLC	11	NatWestminster	11
B & C Merchant Bank	11	Duncan Lawrie	11	Northern Bank Ltd	11
Bank of Baroda	11	Equatorial Bank plc	11	Nykredit Mortgage Bank	12
Banco Bilbao Vizcaya	11	Exeter Bank Limited	11½	Provincial Bank PLC	11
Bank of Cyprus	11	Financial & Gen. Bank	11.5	Roxburghe Bank Ltd	12
Bank of Ireland	11	First National Bank Plc	14	Royal Bk of Scotland	11
Bank of India	11	● Robert Fleming & Co.	11	● Smith & Williamson Secs.	11
Bank of Scotland	11	Robert Fraser & Ptnrs.	11½	Standard Chartered	11
Banque Belge Ltd	11	Girobank	11	TSB	11
Barclays Bank	11	● Guinness Mahon	11	Unibank plc	11
Benchmark Bank	11	● Hambros Bank	11	● United Bk of Kuwait	11
Brit Bk of Mid East	11	Hampshire Trust Plc	13.5	Unity Trust Bank Plc	11
● Brown Shipley	11	Heritable & Gen Inv Bnk.	11	Western Trust	11
CL Bank Nederland	11	● Hill Samuel	11	Westpac Bank Corp	11
Citibank NA	11	C. Hoare & Co.	11	Whiteaway Laidlaw	11
City Merchants Bank	11	Hongkong & Shanghai	11	Yorkshire Bank	11
Clydesdale Bank	11	● Leopold Joseph & Sons	11	● Members of British Merchant Banking & Securities Houses Association.	
Comm. Bk. of London Plc	11	Lloyds Bank	11		
		Meghraj Bank Ltd	11		

هكذا من الأصل

COMPANIES AND FINANCE

Petersville Sleigh shows loss of A$241.4m

By Kevin Brown in Sydney

PETERSVILLE SLEIGH, an associate of Mr John Spalvins' failed Adelaide Steamship group, yesterday announced a net loss of A$309m (US$241.4m) for the year to June 30 after writing down its investments in Adsteam companies.

Petersville, Australia's second largest foods group, is the target of a A$1.15 per share takeover bid by Pacific Dunlop, the diversified Australian manufacturing and textiles group, which values Petersville at A$374m.

Petersville is controlled by the three main Adsteam companies, Tooth & Co (39 per cent), *Adelaide Steamship* (19.5 per cent) and David Jones (2.5 per cent), all of which are being restructured by a syndicate of banks owed more than A$6bn.

Mr Spalvins was dismissed as Adsteam group managing director in March after revealing a consolidated interim loss of A$1.2bn, and has since left both the company and the boards of its subsidiaries and associates.

Petersville said it had written *down its investment* in Adelaide Steamship to zero at a cost of A$38m, and its holding in Tooth & Co to A$0.20 per share at a cost of A$238m.

At the operating level, Petersville reported a loss of A$18.8m, compared with a profit of A$97m in the previous year. The company said its core food and forest products businesses had been hit by the Australian recession.

Petersville said it had taken action to prevent further losses, including a reduction of more than 9 per cent in the company's workforce, which had affected nearly 700 people.

The board said the group was now focused on food, forest products and related activities, *following* the disposal of non-core assets including a stake in Howard Smith, another Adsteam associate.

Insurer receives a French lesson

Nikki Tait examines the complicated plan for Executive Life

It was, said one Wall Street banker, the most complicated transaction he had worked on in more than a decade of deals.

What he was referring to was the proposed French-led restructuring of Executive Life (ELIC), announced last week. This is the Los Angeles-based life insurer which was seized by the state regulators last April. It was the largest-ever US insurance company failure at that time and it set alarm bells jangling all the way to Capitol Hill.

John Garamendi: warns of muddied waters

The bones of the proposal are clear enough. Altus, a free-wheeling investment operation in which Crédit Lyonnais, the large French bank, owns a majority stake, would pay $2.7bn for much of ELIC's chunky junk bond portfolio – the source of its problems in the first place.

In a second leg to the deal, a consortium of French institutions – including Mutuelle Assurance Artisan de France (MAAF), a large mutual insurer – would inject $300m into ELIC and *manage the* continuing insurance operation. Finally, some additional ELIC assets, including $350m of property, would be placed in a liquidating trust supervised by the Californian insurance department.

As yet, there is no guarantee that the transaction will happen. The scheme will be filed with the courts shortly, starting a 60-day period when any rivals can top the offer. Mr John Garamendi, California's high-profile insurance commissioner, has also warned that a $643m tax claim from America's Internal Revenue Service, litigation against Executive Life, and any sudden deterioration in US economy could muddy the waters.

But, assuming the deal does proceed, all sorts of questions arise. Why, for example, does a French company want to buy America's largest portfolio of junk bonds? What does an overseas consortium, mainly French investment firms, want with the much-tarnished insurance operation? And, not least, how would this solution reflect on the hotly-debated insurance regulatory process?

The first question appears to be a matter of financial judgment, and connections. It is no coincidence that Altus counts Mr Leon Black, the former Drexel *Burnham Lambert* dealmaker who subsequently set up his own investment operation, among its advisers. Most of ELIC's junk bonds came from the now-defunct investment bank, and Mr Black must know it well. This US-French relationship, moreover, is not new. Altus – which saw net profits slip 29 per cent to FFr802m ($137.8m) last year – is already a significant participant in Mr Black's investment fund.

Meanwhile, Crédit Lyonnais defends the adventure in the simplest terms. The bonds would be bought at a good discount to book value, presenting "an excellent long-term investment opportunity".

The validity of this is difficult for outsiders to assess. For a start, Altus is taking on only a large part of the ELIC portfolio, and it is the higher quality securities which will remain with the insurance operation. Moreover, many of the numerous holdings are troubled situations, rife with possibilities but also with investment uncertainties.

Equally debatable is the size of the discount which Altus is getting. At first sight, a $2.7bn purchase price looks cheap compared with the holdings' book value of over $5bn.

However, *this may be significantly* different from realisable value. At end-1990, ELIC's entire bond portfolio – most of which was below investment grade – was valued at $6.75bn, but market losses were reported to be $1.89bn. One consultant to the Insurance Department subsequently argued that the true value may have been lower still, below $4bn. This is because some of the bonds are not traded and hence "market value" makes no adjustment for any diminution in their worth.

The second matter – management plans for the insurance business – is something no one seems eager to discuss. ELIC does have a fairly sizeable customer base, currently *frozen, and a helpful upmarket* slant, although marketing arrangements were damaged during the policyholder run. Of the seven consortium members, MAAF is at least an "industrial" player, and will take the largest stake in the newly created company ("Newco"), understood to be in the 15-25 per cent range. But even MAAF has only a modest life operation at present, and is viewed mainly as a vehicle insurer.

Altus' *shadow*, meanwhile, hangs across this side of the transaction. It is, for example, underpinning a 7 per cent return on high yield bonds which remain with "Newco," while Crédit Lyonnais itself is guaranteeing the entire $3bn financing package. Advisers concede that the deal was structured to comply with banking legislation, which restricts banks' access to the insurance sector, and there seems little doubt about who has driven the entire transaction.

The final issue is a mixed bag. On the one hand, the insurance department estimates that investors would get back 81 per cent of the cash value of their policies and 100 per cent of death benefits. The sum could even turn out to be *more generous, since policy*holders share in profits made by "Newco" and Altus once a 20 per cent return has been achieved.

For many policyholders, this is an improvement; when ELIC was seized, regular ELIC annuitants saw their cash payments cut to 70 per cent of the original value.

But this 81 per cent payout is only achieved by squeezing one class of investors in ELIC contracts out of the picture altogether. *Some municipal bonds* have been backed by "guaranteed investment contracts" (basically savings contracts which promise a certain return) bought from ELIC. ELIC has stopped paying out *on "muni-GICs" and, under the* French deal, this position would not change.

Mr Garamendi has taken the view that these contracts are not insurance products; they are not, for example, covered by the Californian guaranty fund arrangements. But some municipalities have subsequently defaulted on the bonds which the GICs backed, in turn affecting hapless small investors, pension funds and the like. Moreover, even regular policyholders will find themselves disadvantaged on surrenders for several years. To give "Newco" a stable customer base, the penalties for cashing in will be abnormally high.

In short, a solution has been found and, as result, some of the steam surrounding the ELIC collapse may evaporate. But it seems unlikely that the episode – and its implications – will be quickly fade from public consciousness.

IM Skaugen plans demerger

By Karen Fossli in Oslo

I. M. SKAUGEN, one of Norway's biggest shipowners, plans to spin off its lightering and Caribbean trading businesses into a new company to be named Skaugen PetroTrans.

After the demerger the company plans to concentrate on small gas carriers, product tankers and the contract tank/bulk trade. Skaugen's lightering business involves the transfer of crude oil from large tankers to smaller ones up to 90 miles off the US coast. The new company will assume responsibility for the lightering business and oil and chemical trade in the Gulf of Mexico.

The business which is to be transferred to Skaugen PetroTrans accounts for 25 per cent of Skaugen's turnover. In 1990 this business contributed an operating profit, after depreciation, of NKr29m ($4.23m).

It is being proposed that Skaugen shareholders be allotted one share in Skaugen PetroTrans for each share in Skaugen. The shares will be listed on the Oslo stock exchange. After the demerger Skaugen will manage a fleet of 32 owned and 32 chartered vessels.

● Saga Petroleum, Norway's biggest independent oil company, reports that first half-year profits, before extraordinary items, slipped to NKr359m from NKr389m a year earlier. It expected crude oil sales for the year as a whole to reach 20m barrels.

Saga blamed the fall on a NKr236m unrealised currency loss on borrowings resulting from the strength of the dollar. Actual operating revenues rose to NKr2.07bn from NKr1.69bn. But operating expenses advanced by NKr191m to NKr1.39bn.

Date set for Milan dealings in Bayer, VW

By Haig Simonian in Milan

DEALINGS in Bayer and Volkswagen, the first two foreign companies to have their shares traded on the official listing of the Milan stock *exchange, are expected to start* on August 19.

A number of foreign companies have been seeking Milan listings in recent years. However, plans have been blocked by a mixture of legislative barriers and bureaucracy.

The breakthrough, which follows a series of simplifications in procedures by Consob, Italy's stock market watchdog, and bilateral agreements between registration bodies in Italy and elsewhere, represents a small but significant step in the reforms taking place in Italy's securities markets.

The Bayer listing has been handled by Mediobanca, the Milan-based merchant bank, while Banca Commerciale Italiana has been responsible for that of Volkswagen. Following considerable publicity, the 150,000 shares in Bayer and 80,000 Volkswagen shares being issued in Italy are believed to have been easily placed with clients.

Further listings being prepared include IBM and a number of other German companies, probably including Deutsche Bank and Dresdner Bank.

● Finmeccanica, the state-owned holding company controlled by Italy's IRI group, plans to float shares in its Esaote Biomedica subsidiary.

The decision, which must be formally approved at a meeting of the Geneva-based company next month, follows the listing *of Finmecannica's Elsag Bailey* engineering subsidiary in July.

Power Corp slides to C$75m

By Robert Gibbens in Montreal

POWER Corporation of Canada, the holding company of Mr Paul Desmarais, the Montreal financier, saw first-half earnings decline because of lower operating profits by the subsidiaries and lower investment income.

Earnings were C$75m (US$65.2m) or 56 cents a share, *against C$116.3m, or 88 cents* a share, a year earlier. The results include Mr Desmarais' media interests in Canada and Power Corp's financial services arm, Power Financial which has a 25 per cent interest in Pargesa, the Swiss-based holding company.

Power Financial, which is 70 per cent owned by Power Corporation, achieved first-half profits of C$91.9m, or C$1.02 a share, against C$126.1m, or C$1.41 a share re-stated, a year earlier.

Mitel decline continues

By Bernard Simon in Toronto

MITEL, the Canadian telecommunications equipment maker, has posted its fifth consecutive quarterly loss amid continuing uncertainty over the 51 per cent controlling interest put up for sale by British Telecom over a year ago.

Mitel's loss in the three months to June 28, the first quarter of its fiscal year, was C$5.4m (US$4.69m), or 8 cents a share, compared with a C$3.1m loss, or 5 cents a share, a year earlier.

Poor earnings from the semiconductor business pushed up the operating loss to C$6.4m from C$5.1m. Lower sales of switchboards and other telecommunications equipment were offset by a 16 per cent drop in costs, which the company attributed to the extensive restructuring which started last March.

Revenues fell to C$87.9m from C$100.2m. Weak markets in North America and Britain have been partially offset by higher sales in Europe, especially Germany, and other parts of the world.

Mitel, which specialises in small office *switchboards*, is planning to launch a number of new desk-top devices over the next two months. It has not yet disclosed details of the new products.

George Weston posts 45% fall

GEORGE WESTON, the Canadian holding company for the Weston family's food distribution and resource interests, posted a 45 per cent drop in first-half earnings before special items and does not expect a recovery until 1992, writes **Robert Gibbens**,

Profit was C$32.6m (US$28.3m), or 44 cents a share, down from C$59.7m, or C$1.20, a year earlier, on sales little changed at C$5bn. Second-quarter earnings were *C$21.3m*, down 34 per cent, on sales little changed at C$2.6bn.

The Canadian food operations were affected by the long recession and the fisheries division was hit by low salmon and tuna prices.

● Laurentian Group, the insurance company, earned C$7.7m, or 13 cents a share, in the second quarter, down 25 per cent from a year earlier.

First-half earnings slipped 5 per cent to C$17.8m, or 31 cents *a share, on revenues of* C$1.3bn, up 20 per cent.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Bundesbank ready to call the shots

MR Helmut Schlesinger, the new president of the German Bundesbank and the fifth since its foundation in 1957, will be calling the shots in the gilts market this week.

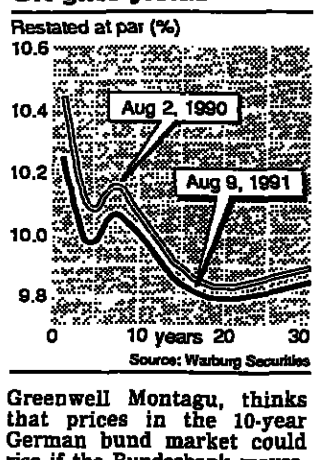
Although the Federal Reserve eased US monetary policy a touch last week, a rise in the German discount rate by 1 percentage point to 7.5 per cent is still regarded as a certainty on Thursday, while the Lombard rate is expected to rise by half as much to 9.5 per cent.

Few market participants argue that this will have much influence on the timing of the next interest rate cut by Mr Norman Lamont, the chancellor of the exchequer, for one is not expected for a while. The authorities have finally convinced the markets they mean what they say.

No more are in the offing, they repeat, until the pound has settled down after the last one, which took the bank base rate to 11 per cent. This means that the usual Friday morning flutters before the release of the retail prices index are unlikely to raise the tempo of a stodgy August.

Mr Roger Bootle, analyst at Greenwell Montagu, thinks that prices in the 10-year German bund market could rise if the Bundesbank moves, as it improves the inflation outlook after a difficult reunification.

UK gilts yields



Source: Warburg Securities

"All eyes will be on sterling. If it holds steady, and does not weaken the prospect for UK base rate cuts, then gilts could move ahead as a competing market is yielding less," he says.

Mr Schlesinger's tough attitude to German inflation could, however, cause trouble for Mr Lamont later in the year. Mr Lamont should have little difficulty shaving another half-percentage point off the base rate around the time of the party conferences at the end of September and beginning of October. For if Mr Schlesinger does narrow the gap between the German Lombard rate and UK base rates, he will not prevent the next UK interest rate cut, but the next-but-one.

Should the Bundesbank raise the Lombard rate to 10 per cent, this could almost close the gap between UK and German rates. In turn, this could make a further cut from 10.5 per cent in the UK difficult to achieve.

Investors comparing the inflation records of Germany and the UK – even if UK inflation does settle under 4 per cent by the end of the year, after 5.5 per cent in July – will still expect an inflation premium from sterling instruments. They will also increasingly seek a political risk premium after the summer recess is over, the party conferences begin, and the election looms.

● Before facing Germany, gilts had to stomach £450m of new stock in varying maturities last week, coming on top of £1bn tap stock absorbed the week before. Mr Nigel Richardson, economist at S. G. Warburg Securities, said that the big US houses had been reported to have taken up a good proportion of the stock – which had not apparently yet fallen into the hands of retail investors – but still described the market's end-week state as one of "indigestion".

● The Bank of England's technical changes of the auction arrangements last Thursday are being called a sop to the market-markers at a time when the government's return to borrowing will require about £1bn a month from the gilts market.

The Bank shortened the period between the first announcement of the auction and the auction itself from about three weeks to 17 days. A shorter period between auction details and its actual date should wake up trading and turnover volumes. Market makers lobbied the Bank hard on the issue, and were pleased the Bank listened.

Rachel Johnson

BELGIAN BONDS

Budget factors allow yields to tumble

YIELDS in the Belgian bond market fell as much as 15 basis points last week, on news of the country's 1992 budget.

"Before the budget talks started two weeks ago, there were fears that the coalition government would fail to reach an agreement, or would announce a 'paper budget' which meant nothing," said Mr Peter Claes, economist at Banque Bruxelles Lambert.

In the event, the budget has proved credible and largely eased fears that the approaching elections, which will be called in January at the latest, would lead the government to abandon attempts to control the country's deficit.

For Belgium, with the highest per capita debt of any EC country, deficit reduction is a crucial goal.

The yield on the Belgian government's 9 per cent benchmark issue due 2001 ended at 9.37 per cent on Friday, down from 9.50 per cent the previous week, while the spread against German Bunds narrowed by about 10 basis points.

Since the Belgian franc is now pinned to the D-Mark, the remaining premium of about 80 basis points offered by Belgian bonds is a credit and liquidity premium. The spread has narrowed dramatically from a peak last year of 170 basis points.

In the budget, the government maintained its so-called "dual strategy" – the commitment to hold down real spending and the nominal deficit. But the decision to find additional revenue by raising corporate taxes and indirect taxes such as on petrol from September was not uniformly welcomed, even though the impact on the inflation rate is expected to be only 0.1 per cent.

Some economists are critical that the government is not to tackle the country's expensive bureaucracy more drastically. "Failure to address the public sector administration more efficiently could result again in a deficit overshoot," warned Ms Christel Arande Burckhardt, an analyst at UBS Phillips & Drew.

The government's revenue shortfalls this year mean that the target debt level of 5.8 per cent of gross domestic product will not be met.

However, the moderately bullish sentiment in the bond market is supported by the relatively low supply expected for the rest of the year, as Belgium has already completed most of its funding. The country's gross financing requirement (that is, both new funding and refunding of old debt) is BFr1,100bn this year, of which BFr760bn was completed in the first six months, according to Mr Claes.

The Belgian bond market also benefited last week from an improvement in the inflation rate. The inflation differential between Belgium and Germany has turned in favour of Belgium.

In a broader perspective, turnover has been boosted by a range of reforms in recent years designed to attract more foreign investors. Classical bonds have been systematically replaced with OLOs (Obligations linealres), liquid, fungible bonds on which no withholding tax or stamp duty is paid. The government has also replaced short term debt with longer dated bonds.

Dealers hope that the delayed opening of Belfox, the Belgian futures and options exchange, in the autumn, will attract further foreign investors to the market. The exchange will trade a futures contract on Belgian government bonds.

Tracy Corrigan

US MONEY AND CREDIT

Salomon admits breaking the rules

THE Federal Reserve might have cut its funds target rate but the talking point on Wall Street last week was the announcement by Salomon Brothers that its bond department had broken Treasury auction bidding rules.

The disclosure, made by the securities house on Friday, could not have come at a worse time for proponents of self-regulation in the US government securities markets.

Congress has been debating whether to reorganise regulation of the Treasury markets when the 1986 Government Securities Act comes up for re-authorisation in October. Any reorganisation could involve amending the Act to provide for regulation of bond market sales practices, and allocating regulatory authority to either the Securities and Exchange Commission, the National Association of Securities Dealers (NASD), or the Treasury.

At present regulatory authority over the markets is unevenly distributed between the SEC, the Fed and the Treasury. Dealers and investors who use the bond markets would prefer self-regulation, but Salomon's rule-breaking will strengthen the arguments of those on Capitol Hill who believe regulation should be handed over to a body outside the industry, such as the SEC or the Treasury.

That Salomon has done a disservice to the market, and to itself, is clear. The firm has admitted that on two occasions it broke the Treasury rule limiting the amount of a new government issue any one dealer or investor can acquire to 35 per cent. Salomon also admits that on a third occasion, during the May auction of two-year notes, the limit may have been exceeded again because of an "apparent oversight".

That "oversight" proved painful for others in the bond market at the time. The concentration of large amounts of the new issue in one dealer's hands forced prices higher. It was the complaints that followed the price squeeze which led to investigations into market manipulation by the SEC, the Treasury and the anti-trust division of the Justice department.

As for Salomon, its reputation on Wall Street has been dented by the disclosures. Few can accept that a dealer as sophisticated and experienced in government bond trading as Salomon did not know what its position was after bidding in a $12.25bn auction of Treasury securities.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.25	5.63	5.69	11.00	2.00
Three-month Treasury bills	5.46	5.63	5.72	7.81	5.53
Six-month Treasury bills	5.60	5.79	5.92	7.75	5.82
Three-month prime CDs	5.67	5.88	5.97	9.01	5.86
30-day Commercial Paper	5.63	5.75	5.92	9.95	5.80
90-day Commercial Paper	5.63	5.82	5.95	10.05	5.81

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	102⅛	+⅜	7.80	7.88	8.13
20-year Treasury	109¼	+¼	8.21	8.23	8.43
30-year Treasury	98⅞	-¼	8.22	8.24	8.43

Source: Salomon Bros (estimates).

Money supply: In the week ended July 29, M1 rose by $4.3bn to $884.4bn.

Salomon's breach of the 35 per cent limit poses a tricky question for the Treasury, which relies on the big dealers to guarantee there is liquidity in the market to absorb ever-larger additions of supply.

The 35 per cent limit could be lowered, but that might shrink liquidity and endanger the Treasury's ability to auction future issues at a reasonable price. However, if the Treasury does not change the rules in the wake of the Salomon case, it can only bring louder calls from critics for outside regulation.

* * *

THE Federal Reserve gave the credit markets a welcome surprise when it cut its target for the key Fed Funds rate from 5¾ to 5½ per cent – the first reduction since late April. The Fed was evidently responding both to continued weak money supply data and an unexpectedly poor set of July unemployment figures, suggesting that the recovery from recession might be faltering.

The question now exercising Wall Street is whether this is just the start. On its own, a 25 basis point cut will not provide much of an economic stimulus. Banks, for example, are unlikely to cut their prime interest rates, so the easing will not filter through to the pockets of the all-important consumer.

So if the economic data continue to raise the possibility of a "double dip" recession, the Fed is likely to ease again, with Fed funds dropping to 5¼. The discount rate – at which banks borrow from the Fed – traditionally stands below Fed Funds but is now also at 5½. So any further easing would have to be accompanied by a drop in the discount rate to 5 per cent.

Last week's move, coming just hours ahead of the Federal government's record $38bn refunding, triggered a bond market rally that helped make the first two legs of the auction – comprising three and 10-year notes – a great success. However, a $12bn sale of 30-year bonds on Thursday drew unexpectedly weak demand.

The long end finished with yields little changed on the week – despite positive inflation statistics on Friday – but this may simply prove a matter of short-term indigestion, with the market resuming the recent rally which has taken yields closer to 8 per cent than 8.5 per cent.

Patrick Harverson and Martin Dickson

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	102¼	+⅛	7.28
ABN 9 1/8 94	200	102⅞	+¼	8.00
AETNA LIFE & CAS 7 3/4 16	200	99⅞	+¼	7.76
ALBERTA PROVINCE 8 5/8 96	750	102¼	+¼	8.10
ALBERTA PROVINCE 9 3/8 95	600	104⅞	+½	7.95
AMERICAN EXPRESS 0 00	450	43⅞	+⅝	9.22
AMERICAN GENERAL 9 3/4 95	100	102	+⅞	9.10
ANHEUSER-BUSCH 9 1/8 92	100	101⅞	+¼	7.24
ASIAN DEV BANK 0 04	1000	32½	+⅛	8.99
AUSTRALIA 11 95	200	108⅞	+¼	8.17
AUSTRALIAN WHEAT 9 1/2 93	200	104	+½	7.55
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. DOLLAR STRAIGHT (continued)	Issued	Bid price	Chg on week	Yield
SBAB 9 1/2 95	500	104¼	+⅛	7.99
SEAGRAM CO 8 1/2 96	100	98½	+⅛	8.88
SEARS O/S FIN 0 98	500	52⅞	+¼	9.64
SEARS O/S FIN 11 5/8 93	150	106	+⅛	8.46
SKANDIA INTL 7 1/4 92	200	100	+¼	7.14
SNCF 7 1/4 94	175	100⅛	+⅛	7.16
SNCF 9 1/2 98	150	105⅛	+⅛	8.44
STATE BK STH AUST 9 1/4 93	100	102⅛	+¼	7.37
STATE EL VICTORIA 10 92	100	103⅛	+¼	7.25
STATOIL 7 5/8 94	200	98⅞	+⅛	8.10
STH AUST GOVT FIN 8 3/4 93	100	102	+¼	7.36
SUMITOMO BK CAP MKT 9 3/8 93	150	103⅛	+¼	7.73
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	91	–	6.87
AUSTRIA 4 5/8 98	100	88½	+¼	6.67
CHUJITSUYA 7 3/4 95	50	102	+¼	7.16
COUNCIL EUROPE 4 3/4 98	250	89¼	–¼	6.84
EEC 5 1/2 00	100	90½	–	6.91
EIB 5 3/4 93	100	97½	+¼	6.99
ELEC DE FRANCE 7 1/4 06	100	103½	+¼	6.85
FINLAND 5 3/8 95	150	96¼	+¼	6.34
GENERAL MOTORS 7 1/2 95	100	101	–¼	7.16
JAPAN DEV BK 5 1/2 94	100	96¼	–¼	7.05
KOBE 6 3/8 01	240	98	–¼	6.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Further sections (YEN STRAIGHTS, OTHER STRAIGHTS, FLOATING RATE NOTES, CONVERTIBLE BONDS, DEUTSCHE MARK STRAIGHTS, LUXFR STRAIGHTS, GUILDER STRAIGHTS, CANADIAN DOLLAR STRAIGHTS, ECU STRAIGHTS, AUSTRALIAN DOLLAR STRAIGHTS, STERLING STRAIGHTS, NEW ZEALAND DOLLAR STRAIGHTS, FRENCH FRANC STRAIGHTS, EQUITY WARRANTS): [illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Agip awards $600m loan mandate

AGIP, the Italian state-controlled oil group, has awarded the mandate for a $600m syndicated loan to Bank of America, Royal Bank of Canada, Société Générale and Swiss Bank Corporation.

The loan will be used to fund Agip UK's share of the cost of developing the Tiffany and Toni oil fields in the North Sea. It is fully underwritten by the arrangers and will be launched for syndication in September.

The loan is expected to be structured in such a way that it is part corporate loan and part project finance, although the banks would not comment further last week.

Project financing is more complicated to structure, more time-consuming, and sometimes seen as riskier than a straight syndicated loan – and regarded by many bankers as a much more profitable business area.

Now that the Gulf War is over, bankers are more comfortable about participating in oil-related deals, as illustrated by a recent Amoco Exploration deal. When Amoco decided to raise $650m over 10 years through Barclays Bank and National Westminster in April, the deal was oversubscribed and $1bn was raised. Depending on how the Agip deal is structured, bankers may be keen to participate, especially if it is fully or partly self-financed.

The Agip mandate was won against tough competition. Other groups which are thought to have bid for the mandate include: Citicorp and Barclays; ABN-Amro, NatWest and Deutsche; and Crédit Lyonnais, Manufacturers Hanover and UBS.

If the mandate was awarded on pricing, it suggests that terms for the deal may be quite aggressive. After all, Agip is regarded as a good quality name, tapping the market at a time when quality borrowers are thin on the ground. Although the participating banks say that it is too early to release pricing details, there are rumours in the syndicated loan market that the pricing could be in the region of 38 basis points over the London interbank offered rate (Libor).

One banker (who has no connection with the deal and was not a member of one of the other bidding groups) points out that "if it is done at an aggressive rate, it could be hard to sell because the Italian problems are not over."

This was a reference to what for many bankers has become the F-word – Federconsorzi, the financially troubled Italian farm services co-operative. Bidding for Agip's mandate apparently started before the Federconsorzi scandal erupted.

Many foreign banks – especially the Japanese – which lent to Federconsorzi said at the time that they would not lend to Italian state-controlled companies until Federconsorzi's problems had been resolved. While there is clearly still some bad feeling towards Italian state-controlled borrowers, many banks believe the problems will be resolved soon. Until then, some of the Japanese banks could well find it difficult to justify another Italian deal to their head office.

Interestingly, Banca Commerciale Italiana claims that the $50m syndicated loan it recently arranged for Centrabanca, was "significantly oversubscribed" and banks had to be scaled back. Pricing was 45 basis points over Libor, with fees giving a total yield of 50-51 basis points for a 7-year tranche.

■ The Sultanate of Oman awarded the mandate for a $300m five-year syndicated loan to Bankers Trust and J. P. Morgan.

Pricing for the loan is 50 basis points over Libor for the first two years, and 62.5 basis points thereafter.

Sara Webb

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,025.0	170.1	100.0	11,437.7
Prev	785.9	39.4	509.4	12,532.6
Other	3,028.6	0.2	0.0	7,690.8
Prev	3,003.6	23.0	470.2	7,002.8
Secondary Market				
US$	19,209.7	1,062.4	8,729.8	9,689.6
Prev	21,443.2	826.6	10,176.2	10,535.7
Other	35,010.4	1,253.7	4,364.1	52,439.2
Prev	34,187.6	973.0	5,266.7	53,703.4

	Cedel	Euroclear	Total
US$	21,232.6	30,191.7	51,424.3
Prev	23,137.0	33,712.0	56,849.0
Other	42,689.5	61,097.5	103,787.0
Prev	45,457.2	59,173.1	104,630.3

Week to August 8, 1991. Source: AIBD

INTERNATIONAL BONDS

Citicorp to test sentiment with $1.5bn global issue

A GLOBAL issue of credit card-backed securities this week will test sentiment on dollar securities, as well as demand for asset-backed paper.

Citicorp, the largest issuer of asset-backed securities, is returning to the market with a $1.5bn five-year global offering, due to be launched today.

It is expected that the bulk of Citicorp's global deal will be placed in the US. The dramatic tightening of spreads in the Eurobond market in recent months has been driven, in part, by demand from US mutual funds, while the Japanese have become net sellers of dollar securities.

"Quite a lot of paper has been coming out, especially off-the-run issues. The Japanese do not really like dollar bonds at these (yield) levels, and are tending to lighten up," said one trader at a Japanese bank. Nervousness about the stock market and capital adequacy worries have encouraged Japanese investors to take profits where they can.

But that paper has flowed, apparently effortlessly, into US mutual and bond funds, and spreads have continued to tighten. European demand, at a traditionally quiet time of the year, has been firm, but selective.

"If the range (the indicated range of the yield spread over US Treasury bonds at which the Citicorp bonds will be sold) is set at 71-74 basis points, and the deal is priced at the more generous end of that range, I think around 25 per cent of the deal could be placed in Europe," said one banker close to the deal. "If it is done tighter than that, Europe could fade away."

Citicorp's outstanding five-year bonds are trading at about 75 basis points over the curve.

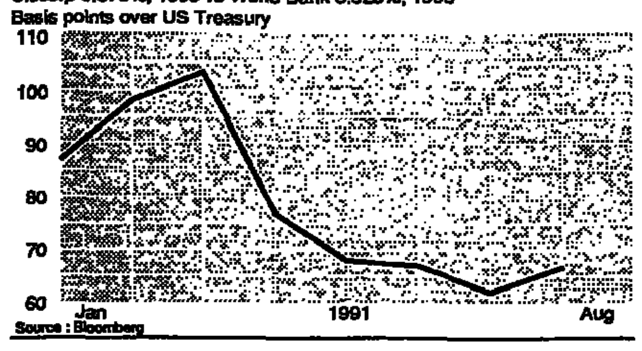
Although Eurobond spreads have already tightened substantially in the past two months, they are still a good 10 to 15 basis points away from historically low levels reached a few years ago. And many traders believe there is still room for further tightening.

If nothing else, the US government's heavy programme of Treasury issuance in coming months, coinciding with relatively low supply of Eurodollar bonds, will push the market in that direction. Further, the ratcheting down of US Treasury yields is inclining US investors in particular to seek higher yields. They can do this by moving into longer maturities, which may not suit their investment strategies, or by moving into lesser credits. This accounts for the willingness of US funds to buy Eurodollar bonds.

Bond yield spreads

Citicorp 9.375%, 1995 vs World Bank 8.625%, 1995

Basis points over US Treasury



Source: Bloomberg

There could be some negative influences, however. The weakness of the Canadian dollar sector of the Eurobond market, which has been overloaded with deals, could prompt a sharp correction in spreads in that sector. If they become dramatically wider than in the US markets, some investors may begin to think dollar spreads expensive. Further, many investors, while expecting Treasuries to rally further in the medium term, are not convinced the market will be able to push beyond certain key levels, such as 8 per cent on the long bond, and may take profits at that level.

The lack of supply in the Eurodollar bond market is due in part to the failure of the swaps market to provide attractive funding levels for non-fixed-rate dollar borrowers. Some traders believe this extended stretch of poor swap opportunities cannot last much longer. "There will come a point when the market reaches absolute yield levels, at which people will want to pay fixed-rate (interest, as a counterparty in a swap transaction)," one dealer said. Others believe that efficient derivatives markets will have ended attractive arbitrage opportunities.

Some companies have switched funding to the medium-term note market. But European companies which have tapped the market have seen their deals perform well. A recent five-year Unilever deal is currently bid at just 5 basis points above the comparable US Treasury.

Meanwhile, the supply of large, liquid issues in the dollar sector is becoming depleted, as European sovereign borrowers desert the dollar market in favour of the politically correct Ecu bond market.

With the appetite for dollar securities fairly healthy, Citicorp, which once lost marks for its high borrowing needs, now finds its paper more sought after, because there are fewer issuers capable of providing benchmark deals around.

The decision to award the mandate to arrange the deal to one of the big three Swiss banks, UBS, has put the noses of the US bulge bracket firms, which have so far had a monopoly of global bond issues, somewhat out of joint.

● The World Bank has launched a HK$500m offering of five-year bonds, paying a semi-annual coupon of 9.06 per cent at 100⅛. The deal was arranged by Paribas Asia.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Kumagai Gumi(g)♦†	360	1995	4	4¾	100	Daiwa Europe	4.375
Nippon Stainless Steel(d)♦†	100	1995	4	4⅝	100	Yamaichi Int.	4.625
Bayer USA Inc.†	150	1996	5	8¼	101.475	Deutsche Bk Cap.Mkts.	7.882
Senko Co.(i)♦†	100	1995	4	4⅝	100	Daiwa Europe	4.625
Topy Industries(e)♦†	100	1995	4	4⅝	100	Nikko Secs.	4.625
Kawasaki Heavy Ind.♦	360	1995	4	4⅝	100	Yamaichi Int.	4.625
Shimadzu Corp♦	150	1995	4	4⅝	100	Nikko Secs.	4.625
Kurita Water Ind.♦	100	1995	4	4⅝	100	Nikko Secs.	4.825
Credit Lyonnais(r)†	250	1998	6¾	8¾	102.20	Credit Lyonnais	8.298
Daicel Chemical Ind.♦	200	1995	4	4⅝	100	Nomura Int.	4.625
Crown Resources(q)§†	15	2001	10	5¾	100	CSFB	5.750
Furukawa Co.♦	100	1995	4	4⅝	100	Nomura Int.	4.625
Japan Storage Battery♦	100	1995	4	4⅝	100	Nikko Secs.	4.625
ECUs							
General Motors Corp†	150	1994	3	10	101.325	JP Morgan Secs.	9.472
Volvo Gp.Fin.Europe†	75	1993	2	10½	101⅝	Sumitomo Finance Int.	9.199
STERLING							
KFW Int.Fin.†	150	2001	10	10⅝	101.57	JP Morgan Secs.	10.365
3i Group†	100	1996	5	11¼	101.50	SG Warburg Secs.	10.844
FRENCH FRANCS							
Compagnie Bancaire†	1.4bn	1996	5	9⅛	101.495	BNP Capital Markets	9.362
Credit National(u)†	1bn	1994	2½	9¼	100.3075	CCF	9.071
D-MARKS							
Toyo Linoleum(g)♦†	80	1995	4	5⅜	100	Nomura Bk GmbH	5.375
Daito Seiki Co.(d)♦†	40	1995	4	5⅜	100	Deutsche Bank	5.375
SWISS FRANCS							
Nippon Meat Packers(c)★★♦†	100	1995	-	4¾	100	Credit Suisse	4.750
Aiwa(b)★★§†	100	1995	-	5¼	100	UBS	5.250
Tateyama Aluminium(a)★★♦†	100	1995	-	4½	100	SBC	4.500
Toho Rayon(h)★★♦†	80	1995	-	4¼	100	Yamaichi Bk (Switz)	4.250
Xebio Co.(p)★★§†	80	1995	-	4	100	Nomura Bk (Switz)	3.999
Kanto Biomedical(f)★★§†	40	1995	-	4	100	Daiwa Secs.(Switz)	3.999
Meiko Construction(d)★★♦†	35	1995	-	4½	100	Nikko Bk (Switz)	4.500
Nippon Densu(e)★★♦†	25	1995	-	4½	100	Nikko Bk (Switz)	4.500
Asakawa Gumi(k)★★♦†	50	1995	-	4½	100	Nomura Bk (Switz)	4.500
Daito Seiki Co.(j)★★§†	30	1996	-	5½	100	Banca d'Gottardo	5.498
Kawasaki Heavy Ind.(l)★★§	200	1995	-	5½	100	SBC	5.498
Compagnie Bancaire†	100	1995	-	7⅛	101⅝	Swiss Volksbank	6.649
FP Corp(m)★★§	80	1995	-	4	100	Daiwa Secs.(Switz)	3.998
Daiki Aluminium(n)★★♦	30	1995	-	4½	100	Coutts & Co.	4.500
Goto Drop Forging(e)★★♦†	20	1995	-	4½	100	Yamaichi Bk (Switz)	4.500
Daiei Taigen(o)★★§†	45	1995	-	4	100	Coutts & Co.	3.999
Royal Electric Co.(t)★★§†	20	1995	-	4	100	Daiwa Secs.(Switz)	3.999
YEN							
Kawasaki Steel†	30bn	1999	8¼	7¼	101.70	Yamaichi Int.	6.965
Kawasaki Steel†	30bn	2000	9¼	7¼	101¾	Nomura Int.	6.980
LUXEMBOURG FRANCS							
Rank Xerox BV★★†	600	1994	3	9¾	102	Credit Europeen	8.960
Cregem Int.Bk SA★★†	300	1995	3½	9⅝	102	Cregem Int.	8.902
Commerzbank Int.SA(s)†	1bn	1999	8	9⅝	102.10	KBL	9.242
Compagnie Bancaire†	600	1998	7	9⅝	102¼	Banque Paribas (Lux.)	9.175

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ◆Variable rate notes. †Final terms. a) Exercise premium fixed at 2.5%. Callable 22/5/93 at 102% declining ½% semi-annually. b) Conversion premium fixed at 2.5%. Callable 30/9/93 at 101% declining ¼% annually. c) Exercise premium fixed at 2.5%. Callable at 101% 15/8/93 and 100½% 15/8/94. d) Exercise premium fixed at 2.5%. Non-callable. e) Exercise premium fixed at 2.58%. Non-callable. f) Conversion premium fixed at 2.5%. Put option 30/11/93 at 108½% to yield 7.496%. g) Exercise premium fixed at 2.6%. Non-callable. h) Exercise premium fixed at 2.58%. Callable 14/2/93 at 101¼% declining ¼% semi-annually. i) Exercise premium fixed at 2.54%. Non-callable. j) Exercise premium fixed at 2.5%. Callable 30/9/94 at 102% declining ½% semi-annually. k) Exercise premium fixed at 2.59%. Callable 22/2/94 at 101½% declining ½% semi-annually. l) Callable at 102% 30/9/93 declining ½% semi-annually. Coupon payable semi-annually. m) Put option 30/9/93 at 108% to yield 7.608%. n) Callable 22/8/92 at 101½% declining ¼% semi-annually. o) Conversion premium fixed at 2.55%. Put option 30/9/93 at 108% to yield 7.558%. p) Conversion premium fixed at 2.5%. Put option 30/9/93 at 108¾% to yield 7.88%. q) Callable in 3rd year at 103% declining by 1% annually. Coupon payable semi-annually. Coupon indicated at 5½%-6%. Conversion premium fixed at 6.46%. r) Fungible with existing $300m deal launched May. Non-callable. s) Issued on fiduciary basis for Commerzbank AG. Non-callable. t) Conversion premium fixed at 2.53%. Put option 31/3/94 at 109⅞% to yield 7.516%. u) Fungible with existing FFr2bn deal. Non-callable. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

CANADA

TORONTO

4:00 pm prices August 9

24200	Canamax	34	34	34	
8300	Canfor	$24¾	24⅝	24⅝	
1500	CnPcForest	$31¼	31¼	31¼	-⅛
600	Cara Op	$5¾	5¾	5¾	
300	Cascades	490	490	490	
300	Celanese	u$38⅜	38⅜	38⅜	
35500	Cntrl Cap	170	d160	170	+5
23300	Cinepx Odn	$5⅛	5	5⅛	-⅛
1800	Cntrl Fd A	475	475	475	+5
9400	Labatt	$25¼	25⅝	25¼	
60800	Lac Minls	$9⅞	9⅝	9⅞	+⅛
400	Lafarge x	$16¾	16¾	16¾	
35500	Laidlaw A x	$13⅝	13½	13⅝	+⅛
117200	Laidlaw B x	$13⅝	13½	13½	
2000	Laurent Bk	$17½	17½	17½	
100	Laurent Gp	$7¾	7¾	7¾	
4200	Lawson Mar	$9¼	9⅛	9¼	
45400	Rio Algom	$18¾	18½	18½	+⅛
700	Rogers A	$10¾	10¾	11¼	
200	Rothmans	u$70	70	70	+½
141200	RoyalBkCan	$26⅛	25⅞	26⅛	+⅛
105200	RylTrustco	$9	8⅞	9	
4500	StLawrCm A	$14⅛	14⅛	14⅛	-⅛

MONTREAL

4:00 pm prices August 9

34900	NatBk Can	$10⅞	10⅜	10⅜	-¼
1200	Provigo	$11½	11¼	11¾	+⅛
200	Quebecor A	$17½	17½	17½	
4500	Videotron	$13⅝	13½	13½	-¼

Total Sales 7,230,900 shares

INDICES

NEW YORK

DOW JONES	Aug 9	Aug 8	Aug 7	Aug 6	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2996.20	3013.86	3026.61	3027.28	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	95.50	95.49	95.33	95.14	95.50 (9/8)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1215.09	1221.79	1225.67	1227.08	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	203.18	204.06	204.49	203.81	220.89 (16/4)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

Day's High 3036.45 (3045.17) Low 2986.81 (2995.30)

STANDARD AND POOR'S

	Aug 9	Aug 8	Aug 7	Aug 6	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	387.12	389.32	390.56	390.62	390.62 (6/8)	311.49 (9/1)	390.62 (6/8/91)	4.40 (1/6/32)
Industrials	461.09	463.92	465.50	465.60	465.60 (6/8)	364.90 (9/1)	465.60 (6/8/91)	3.62 (21/6/32)
Financial	30.82	30.95	31.01	30.97	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	212.17	213.23	213.75	213.71	213.75 (7/8)	170.97 (9/1)	213.75 (7/8/91)	4.46 (25/4/42)
Amex Mkt. Value	365.98	366.59	367.33	366.88	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	508.31	509.39	507.46	505.20	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	Aug 2	July 26	July 19	year ago (approx.)
Dow Industrial Div. Yield	3.07	3.10	3.04	3.84

	Aug 7	Jul 31	Jul 24	year ago (approx.)
S & P Industrial div. yield	2.68	2.70	2.77	2.94
S & P Ind. P/E ratio	19.62	19.50	19.02	16.95

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
West Elec	2,953,600	22¼	-1½
Gen Motors	2,713,700	38¼	-1¼
Comm Psyc	2,301,900	27	-2¼
Blockbuster	2,138,000	11¼	+¼
Cons Edison	2,081,400	25¼	
Telefonos	1,976,00	30½	+¼
Tenneco	1,868,200	41¼	-¼
Philip Morris	1,570,900	71¼	+⅛
Union Carbide	1,521,100	21⅞	+¼
Boeing	1,442,500	46½	-¼

TRADING ACTIVITY

† Volume Millions	Aug 9	Aug 8	Aug 7
New York SE	144.698	163.620	170.820
Amex	10.263	11.146	11.357
NASDAQ	140.777	161.588	177.269
NYSE			
Issues Traded	2,072	2,103	2,087
Rises	694	762	873
Falls	865	787	698
Unchanged	513	554	516
New Highs	90	140	161
New Lows	11	9	9

CANADA

TORONTO	Aug 9	Aug 8	Aug 7	Aug 6	1991 HIGH	1991 LOW
Metals & Minerals	3114.58	3146.71	3157.93	3139.68	3299.99 (18/7)	2632.06 (9/1)
Composite	3502.77	3514.65	3528.70	3515.40	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1847.05	1854.23	1863.53	1857.33	1903.86 (7/6)	1686.89 (9/1)

Base values of all Indices are 100 except NYSE All Common – 50, Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable

	Aug 9	Aug 8	Aug 7	Aug 6	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1584.1	1588.6	1591.3	1579.3	1591.3 (7/8)	1204.5 (16/1)
All Mining (1/1/80)	698.1	702.5	703.9	700.2	707.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	461.75	463.56	465.36	465.65	534.81 (16/4)	398.94 (15/1)
BELGIUM						
BEL20 (1/1/91)	1148.67	1147.41	1151.27	1147.33	1212.15 (17/4)	917.99 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	377.12	378.42	379.89	378.79	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	1001.3	1000.1	1004.9	1003.7	1186.9 (8/4)	890.5 (25/1)
FRANCE						
CAC General (31/12/82)	470.59	469.90	467.76	465.92	494.95 (12/6)	394.80 (15/1)
CAC 40 (31/12/87)	1783.54	1789.50	1782.44	1759.53	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	677.37	677.30	674.00	670.62	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1913.4	1914.3	1905.2	1894.5	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1632.21	1630.21	1631.43	1611.90	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4024.01	4046.56	4061.31	4021.27	4063.01 (5/8)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1411.75	1418.46	1426.49	1418.27	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Comm. Ital. (1972)	566.92	569.43	569.74	571.60	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	23434.62	23482.46	23691.02	23464.96	27146.91 (18/3)	22176.17 (8/7)
Tokyo SE (Topix) (4/1/68)	1804.81	1815.26	1822.60	1813.23	2028.85 (18/3)	1625.80 (17/1)
2nd Section (4/1/68)	3016.03	3035.65	3046.89	3065.28	3423.45 (10/5)	2473.92 (14/1)
MALAYSIA						
KLSE Composite (4/4/86)	565.43	564.88	579.40	587.37	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	279.0	279.7	281.1	279.8	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	198.7	199.2	200.2	199.3	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	776.87	773.24	780.21	775.25	792.13 (4/6)	638.05 (23/1)
PHILIPPINES						
Manila Comp (2/1/85)	975.37	986.85	1008.86	1011.88	1183.40 (29/5)	582.64 (18/1)
SINGAPORE						
SES All-Singapore (2/4/75)	(c)	396.55	396.54	396.08	422.43 (26/4)	325.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1285.0§	1291.0	1289.0	1292.0	1469.0 (5/7)	971.0 (25/3)
JSE Industrial (28/9/78)	4107.0§	4085.0	4073.0	4084.0	4107.0 (9/8)	2809.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	745.13	738.10	741.67	763.10	763.10 (6/8)	598.57 (22/8)
SPAIN						
Madrid SE (30/12/85)	270.18	271.76	273.06	271.99	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affärsvärlden Gen. (1/2/37)	1096.20	1090.2	1083.5	1093.3	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	760.0	758.3	757.7	756.3	767.2 (16/7)	590.4 (14/1)
SBC General (1/4/87)	633.0	631.1	631.0	629.1	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	5142.60	4866.22	4838.17	4887.83	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	702.92	699.89	705.99	704.95	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (S)	504.6	507.4*	509.1	507.3	529.2 (17/4)	439.1 (16/1)

**Saturday July 27: Taiwan Weighted Price: 5140.30 Korea Comp Ex. 693.22.

§ Subject to official recalculation. † Corrected figure. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday, August 9, 1991

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	8.6	401	-5
Nippon Carbon	4.1	995	+14
Osaka Gas	3.5	529	-5
M'bishi Heavy	2.7	704	-6
Toshiba	2.3	710	-12
Showa Shell Sekiyu	2.2	1,740	-60
Tokyo Gas	2.2	535	-5
Kawasaki Steel	1.9	391	-6
NKK	1.7	370	-2
Hitachi	1.5	1,100	-10

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AUTHORISED UNIT TRUSTS

Geoffrey Morley Unit Mgrs Ltd (1200)F
3 Bedford Park, Croydon CR0 2AQ 081-686 9818

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Exempt Unit Tst	4	116.68	116.68	124.11	2.60	4051
Exempt Smllr Cos	3¼	222.38	222.38	241.74	1.40	4053

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071—379—0444.

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● Current Unit Trust prices are available on FT Cityline, call 0836 430000. Calls charged at 34p/minute cheap rate and 45p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-[illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq Edinburgh						031-226 3271
American ♥	5	309 9	309 9	330 6	1 29	41410
(Accum Units) ♥	5	362 5	362.5	386 8	1 29	41411
British	5	806 4	806 4	853 1	5 83	41416
(Accum Units)	5	1291 0	1291 0	1365 8	5 83	41417
European	5	326 5	326 5	347 7	1 52	41418
(Accum Units)	5	350 0	350 0	372 7	1 52	41419
Japan	5	117 0	117 0	124 4	-	41420
(Accum Units)	5	117 9	117 9	125 3	-	41421
New Pacific	5	171 9	171 9	182 9	1 96	46365
(Accum Units)	5	176 5	176 5	187 8	1 96	47954
PEP Aug 7	5	134 9	137 1	145 1	3 83	47588
Mngd Equity	5	121 5	123 2	130 4	3 57	47586
Mngd Equity Acc	5	129 1	130 9	138 6	3 57	40586
Mngd Cash	5	96 20	96 20	101 0	10 [illegible]	47585
(Accum Units)	5	113 9	113 9	119 6	10 [illegible]	40587
Bnd Fund Ir Ac Aug 7	5	120 9	120 9	128 0	6 87	42132
Majority Stlg	.1	100 21	100 21	101 20	10 39	42703
Majority Stlg Acc	1	105 12	105 12	106 15	10 39	46689
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin 5 Rayleigh Rd Hutton Brentwood Essex						
Enquiries 0277 227300						Dealing 0277 261010
International July 15	0	50 80	50 80	51 36	3 47	46906
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House Horsham						0403 56293
Equity	6	601 6	609 1	651 4	3 23	41423
North America	6	78 84	78 84	84 32	0 93	41424
Far East	6	91 96	91 96	98 40	1 02	41425
W wide Bond	6	47 18	47 18	50 19	6 20	41426
European	6	66 81	67 27	71 95	1 42	41429
Equity Income	6	70 14	71 04	75 98	5 04	41430
Portfolio	6	58 02	58 57	62 64	2 17	41431
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview Basingstoke Hants						0800 525725
American Growth	6	26 47	26 47	28 32	0 51	47795
Managed Assets	6	102 67	103 37xd	110 56	4 02	44067
UK Income	6	32 60	33 10	35 41	4 67	41432
UK Growth	6	32 59	33 01	35 31	3 31	41433
Worldwide Growth	6	24 53	24 69	26 41	0 67	41434
Sun Life Trust Mngmt Ltd (1200)H						
Swiss Life Unit Tst Man Co Ltd (1200)F						

	Bid Price	Offer Price	Yield Gross	City-line
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American Aug 7	158 9	163 3	1 54	40368
Managed Aug 7	147 3	152 8	3 76	40369
Japan Aug 8	114 6	118 8	0 08	40370
Sm Jap Cos Aug 9	555 2	570 5	0 08	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	131 5	135 6	3 50	46885
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£480 41	487 52	1 64	40456
Gen Exempt	£132 56	135 42	4.17	40457
Jap Exempt	£474.25	483 72	0 77	40458
Pacific Exempt	£102 35	104 35	3 07	46888
Cont'l Euro Exempt	£96 58	98 48	2.32	47674
Incmed Exempt Aug 8	£130.22	133 47	4 64	46886
Amer Indxd Exmt Aug 8	£109 57	106 63	3 04	47673
Japan Indxd Exmt Aug 8	£64 05	65 35	0 65	47676
Euro Indxd Exmt Aug 8	£95 92	97 86	2.82	47675
O'seas Indxd Exmt Aug 8	£99 05	101 23	2 26	46887
Funds in Court*				
Capital July 17	498 37	502 04	2 44	40505
Gross July 17	179 05	180 50	10 80	40506
High Yield July 17	293 47	295 84	6 96	40507
*Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	53 48	54 57	3 79	40676
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1207	1302xd	-	46964
Mngd Pens (Acc)	68 60	73 10	-	41007
Lazard Brothers & Co. Ltd				
Property Jun 3	£2560 0	2675 0	6 00	40777
Inc Gth Pro Apr 16	£1325 0	1460 0	7 20	40778
Lazard Investors Ltd ‡‡				
Exempt Funds				

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N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd	107.8	113.4	–	41924
Pension Managed Fd	106.2	111.8	–	41926
Life Deposit Fd	108.6	114.3	–	41923
Pension Deposit Fd	114.3	120.3	–	41925

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395339

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	111.7	117.6	–	47150
Managed Growth	138.4	145.7	–	47151
Managed Opportunity	139.1	146.5	–	47152
NFMC Target Financial	105.1	110.7	–	47153
Pension Funds				
Managed Cautionary	122.1	128.6	–	47154
Managed Growth	146.5	154.3	–	47155
Managed Opportunity	139.4	146.8	–	47156
NFMC Targt Mngd Pen	1544.6	1625.9	–	47157

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	151.5	160.0	–	42995
Accum Equity	218.0	230.0	–	49005
Accum Managed	220.5	234.0	–	43006
Accum Five Star	170.0	179.5	–	43011
Accum World	125.0	132.5	–	43013
Accum Lifetime	110.7	110.7	–	47139
Pens Acc Equity	234.5	247.0	–	49025
Pens Acc Managed	281.0	296.5	–	43026
Pens Acc Intl	210.0	221.5	–	43027
Pens Acc Deposit	202.0	213.9	–	43029
Pens Acc Five Star	185.5	196.0	–	43031

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

CMI Insurance Co Ltd—Contd.

James Campbell Financial Services
8-10 Brook St, Coleraine Co. Londonderry 0265 58500

Chase de Vere PLC
63 Lincoln's Inn Fields, London WC2A 3JX 071-404 5766

ECU Futures Plc

Hambros Fd Mgrs (CI) Ltd
PO Box 255, Guernsey 0481 715454

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	Yield Gross	City-line
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$769 76		-	45903
Fixed Income Shares	$898 25		-	45904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth	$10.19		-	46000
Yamaichi ISS Fund	$7.54		-	46591
Yamaichi CB Plus Fund	$8 10		-	47335
Thai Inv Fund	$9 68		-	46493
Yamaichi OTC Equity (z)	$9 46		-	47326

IRELAND (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
GAM Fund Management Ltd (u)						
29 Kildare Street, Dublin 010 353 1760 630						
GAM Universal US Dlr Acc	$-		110 35xd		-	40337
GAM Universal US Dlr Inc	$-		108.14xd		-	40340
GAM Universal DM Acc	DM-		120 21xd		-	40341
GAM Universal DM Inc	DM-		117 51xd		-	40342
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar	$-		1 01	1 08	-	43441

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
Bank of Ireland Unit Managers Ltd				
Global Scap	$9 27	9 55	-	43795

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
John Govett – Contd.						
Far East Equity	5½	$10.63	10 63	10 73	1 0	47288
US Smaller Cos	5½	$12.76	12.76	12.89	1.0	47289
European Equity	5½	[illegible]	13 96	14 10	2.0	47290
UK High Income	5	£4.80	4 80	4 83	10 7	47291
UK Equity	5½	£4.96	4.96	5.00	3 0	47292
Initial charge may alter for sales in other jurisdictions						
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63 Bond Street, St. Helier Jersey 0534 76029						
Stlg Fixed Int	5½	£1.131	1.131xd	1.200	9.73	45259
Offshore High Yield	3½	£1 434	1 440	1 493	12.58	45259
Global Equity Fund	5½	$14 64	14 64	15 66	0.65	45260
European Equity	5½	[illegible]	18.51	19 80	0.97	45258
UK Growth (CI Fund)	5½	£4 779	4 779	5 111	2.55	45254
Nth American Eqty	5½	$10.31	10.31	10.99	0.50	45250
Far Eastern Eqty	5½	£10.31	10 50	11.23	0.00	45252
International Mngd	5½	£10.62	10 66xd	11.40	0 67	44066
Intnl. Bond Fund						
Sterling Managed	5½	£10 48	10 48xd	11 17	8.86	45265
US Dollar Managed	5½	$12.96	12.96xd	13 81	5 89	45266
International Currency Fund						
Sterling Managed ♦	5½	£26 80	26.80	28.34	-	45267
US Dollar Managed ♦	5½	$29 78	29 78	31 51	-	45268
Sterling ♦♦	0	£25 48	25.48	25 48	10.31	45269
US Dollar ♦♦	0	$38.28	38.28	38 28	4 45	45270
Deutschmark ♦♦	0	[illegible]	60.85	60.85	7.64	45271
Japanese Yen ♦♦	0	Y4 896	4,896	4 896	6.00	45272
Swiss Franc ♦♦	0	SFr47 28	47 28	47.28	6.46	45273
Irish Punts ♦♦	0	I£22 46	22.46	22.46	6.72	40652
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (z)	5¼	[illegible]	0.1700xd	0.179	9.21	45451
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195 St Helier, Jersey 0534 27561						
Lloyds Tst. Gilt	2½	£9 425	9 439xd	9.686	10 94	45393
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26 St Helier, Jersey 0534 606000						
Intl Circuit Portfolio	6	[illegible]	1 0026	1 0632	1 65	41027
Gilt	3	[illegible]	0.9278	0 9567	10 49	45446

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	Yield Gross	City-line
GT Chile Growth Fund Ltd				
NAV July 30	$21.62		-	43677
GT European Warrant Fd Mngrs (Lux) SA				
GT Euro Wrnt Aug 5	$7.11		-	44496
GT Management Plc				
GT Applied Science	$10 80		-	45032
GT ASEAN Fd (z)	$44.36		0 63	45033
GT Asia Fd (z)	$19.27		-	45034
GT Asia Sterling (z)	£17 22		0.06	45035
GT Australia Fd (z)	$25 46		4 12	45036
GT Aust Small Cos	$12 01		-	46468
GT Berry Japan Fd (z)	$27.93		0.85	45037
GT Berry Jap Stlg (z)	£18.12		0 41	45038

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Dollar in decline

A SQUEEZE on bear positions led to a rally by the dollar in the latter part of last week, but there remains strong evidence that the currency is in a period of downward correction. The decline over the last month was an inevitable counter-reaction to a very rapid climb, from a low of DM1.4450 touched in February, based on tenuous evidence of a US economic recovery.

UK clearing bank base lending rate
11 per cent
from July 12, 1991

When central banks intervened on July 12 at the year's high of around DM1.84 the currency did not have the strength to *resist a sustained downturn*.

Mr Robert Parry, president of the Federal Reserve of San Francisco, has hinted that last week's monetary easing may have to be repeated. He added that "maintaining sustainable economic growth is one of the Fed's most important concerns." Recent data, including the July employment report, have suggested that the recovery is not as strong as the financial markets had hoped.

This points towards a further weakening of the dollar, even though resistance at DM1.70 has so far held. The medium term target is probably DM1.66 and possibly DM1.65 if the German Bundesbank takes a tough attitude towards rising inflation at Thursday's central bank council meeting.

Mr Helmut Schlesinger, Bundesbank president, and Mr Karl Thomas, regional head of the central bank in the State of Hesse, have given very strong hints that the discount rate will rise, but an increase in the Lombard rate would have a greater impact on the foreign exchanges.

In the longer term the situation facing the dollar may be more favourable, providing that the Fed is successful in refuelling the stalled US economy. A surge in economic activity may coincide with a marked slowdown in Germany, as the Bundesbank's moves to combat inflation begin to bite.

£ IN NEW YORK

Aug.9	Close	Previous Close
£ Spot	1.6930-1.6940	1.7060-1.7070
1 month	0.77-0.75pm	0.79-0.77pm
3 months	2.19-2.16pm	2.24-2.21pm
12 months	6.93-6.83pm	7.10-7.00pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Aug.9	Previous
8.30	am	90.9	91.0
9.00	am	90.9	91.0
10.00	am	90.9	91.0
11.00	am	90.9	91.0
Noon		90.9	91.0
1.00	pm	90.0	91.0
2.00	pm	90.8	90.9
3.00	pm	90.8	90.9
4.00	pm	90.8	90.9

CURRENCY MOVEMENTS

Aug 9	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.8	-20.6
U.S Dollar	66.2	-12.6
Canadian Dollar	105.7	+2.9
Austrian Schilling	109.0	+11.5
Belgian Franc	110.4	-2.3
Danish Krone	107.7	+2.4
D-Mark	116.9	+23.8
Swiss Franc	108.8	+17.5
Dutch Guilder	113.2	+15.3
French Franc	102.0	-13.7
Lira	98.1	-20.2
Yen	137.9	+69.5

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Aug.8

OTHER CURRENCIES

Aug 9	£	$
Argentina	16879.5 - 16896.6	9900.00 - 9910.00
Australia	2.1725 - 2.1745	1.2760 - 1.2765
Brazil	602.590 - 603.820	355.200 - 355.500
Finland	7.0965 - 7.1175	4.1680 - 4.1730
Greece	320.100 - 326.500	187.920 - 191.670
Hong Kong	13.2105 - 13.2265	7.7600 - 7.7640
Iran	115.80*	67.90*
Korea(Sth)	1232.65 - 1252.55	725.90 - 731.70
Kuwait	0.49725 - 0.49735	0.29105 - 0.29115
Luxembourg	60.25 - 60.35	35.50 - 35.60
Malaysia	4.7125 - 4.7205	2.7700 - 2.7720
Mexico	5114.95 - 5122.70	3050.00 - 3060.00
N.Zealand	2.9775 - 2.9810	1.7485 - 1.7505
Saudi Ar	6.3505 - 6.4275	3.7500 - 3.7510
Singapore	2.9255 - 2.9355	1.7190 - 1.7220
S.Af (Cm)	4.8510 - 4.8625	2.8525 - 2.8540
S.Af (Fn)	5.4060 - 5.4940	3.1745 - 3.2260
Taiwan	45.65 - 45.75	26.80 - 26.85
U.A.E.	6.2690 - 6.3460	3.6715 - 3.6735

* Selling rate.

CURRENCY RATES

Aug 9	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.786235	0.700393
U.S Dollar	5.50	1.34918	1.19277
Canadian $	8.95	1.54697	1.36763
Austrian Sch	7	16.1942	14.4265
Belgian Franc	7.50	47.4102	42.2330
Danish Krone	9	8.91268	7.94027
D-Mark	6.50	2.30103	2.04977
Dutch Guilder	7.75	2.60230	2.31087
French Franc	10¼	7.83469	6.97472
Italian Lira	11½	1724.78	1535.69

POUND SPOT - FORWARD AGAINST THE POUND

Aug 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6915 - 1.7115	1.6955 - 1.6965	0.76-0.74cpm	5.31	2.20-2.17pm	5.15
Canada	1.9430 - 1.9560	1.9465 - 1.9475	0.40-0.32cpm	2.22	1.15-1.02pm	2.23
Netherlands	3.2930 - 3.3075	3.2975 - 3.3075	½-¾cpm	1.82	1½-1¼pm	1.74
Belgium	60.10 - 60.50	60.25 - 60.35	12-8cpm	1.99	27-18pm	1.49
Denmark	11.3165 - 11.3690	11.3325 - 11.3425	2-1¼orepm	1.72	4¾-3¼pm	1.52
Ireland	1.0920 - 1.0990	1.0955 - 1.0965	par-0.05cpm	0.27	par-0.10pm	0.18
Germany	2.9240 - 2.9325	2.9275 - 2.9325	½-¼pfpm	1.79	1½-1pm	1.71
Portugal	251.45 - 253.00	251.85 - 252.85	94-187cdis	-6.80	231-318dis	-4.35
Spain	182.90 - 184.05	183.15 - 183.45	21-31cdis	-1.70	65-82dis	-1.60
Italy	2189.20 - 2200.15	2193.25 - 2194.25	par-2liredis	-0.55	3-5dis	-0.73
Norway	11.4185 - 11.4710	11.4425 - 11.4525	1¼-½oredis	-0.98	2½-1½pm	0.70
France	9.9430 - 9.9935	9.9600 - 9.9700	1½-1¼cpm	1.51	3½-3pm	1.28
Sweden	10.6190 - 10.6675	10.6325 - 10.6425	1-½orepm	0.78	1½-½pm	0.40
Japan	231.35 - 232.70	231.50 - 232.50	¾-½ypm	3.56	2¼-2pm	3.56
Austria	20.56 - 20.64	20.58 - 20.61	3¼-2¼gropm	1.68	8¾-5¾pm	1.37
Switzerland	2.5615 - 2.5695	2.5670 - 2.5680	¾-⅝cpm	3.21	2-1¾pm	2.92
Ecu	1.4270 - 1.4280	1.4270 - 1.4280	0.17-0.12cpm	1.22	0.28-0.23pm	0.71

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.98-3.93cpm. 12 Month 6.91-6.81cpm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Aug 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6915 - 1.7115	1.6955 - 1.6965	0.76-0.74cpm	5.31	2.20-2.17pm	5.15
Ireland†	1.5425 - 1.5570	1.5470 - 1.5480	0.56-0.51cpm	4.15	1.72-1.62pm	4.32
Canada	1.1450 - 1.1470	1.1460 - 1.1470	0.28-0.31cdis	-3.09	0.82-0.87dis	-2.95
Netherlands	1.9270 - 1.9520	1.9470 - 1.9480	0.57-0.60cdis	-3.60	1.78-1.83dis	-3.71
Belgium	35.25 - 35.65	35.50 - 35.60	9.30-11.30cdis	-3.48	29.00-35.00dis	-3.60
Denmark	6.6320 - 6.6875	6.6825 - 6.6875	1.90-2.20oredis	-3.68	5.80-6.40dis	-3.65
Germany	1.7100 - 1.7320	1.7270 - 1.7280	0.50-0.52pfdis	-3.54	1.57-1.60dis	-3.67
Portugal	147.95 - 148.80	148.70 - 148.80	95-115cdis	-8.47	290-320dis	-8.20
Spain	107.15 - 108.40	108.00 - 108.10	62-67cdis	-7.16	181-191dis	-6.89
Italy	1282.50 - 1294.50	1293.25 - 1293.75	6.10-6.60liredis	-5.89	18.40-19.40dis	-5.84
Norway	6.6950 - 6.7675	6.7475 - 6.7525	2.30-2.65oredis	-4.40	7.25-7.75dis	-4.44
France	5.8200 - 5.8875	5.8725 - 5.8775	1.89-1.94cdis	-3.91	5.76-5.84dis	-3.95
Sweden	6.2220 - 6.2945	6.2700 - 6.2750	2.33-2.58oredis	-4.70	7.50-7.95dis	-4.93
Japan	135.90 - 136.85	136.75 - 136.85	0.19-0.21ydis	-1.75	0.56-0.58dis	-1.67
Austria	12.0570 - 12.1000	12.0570 - 12.0620	3.50-3.95grodis	-3.71	10.60-11.80dis	-3.71
Switzerland	1.4975 - 1.5175	1.5130 - 1.5140	0.25-0.28cdis	-2.10	0.82-0.87dis	-2.22
Ecu	1.1845 - 1.1970	1.1875 - 1.1885	0.43-0.40cpm	4.19	1.27-1.21pm	4.18

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Aug 9	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.696	2.930	232.0	9.965	2.568	3.303	2194.	1.947	60.30	1.428
$	0.590	1	1.728	136.8	5.876	1.514	1.948	1294	1.148	35.55	0.842
DM	0.341	0.579	1	79.18	3.401	0.876	1.127	748.8	0.665	20.58	0.487
YEN	4.310	7.310	12.63	1000.	42.95	11.07	14.24	9457	8.392	259.9	6.155
F Fr.	1.004	1.702	2.940	232.8	10.	2.577	3.315	2202	1.954	60.51	1.433
S Fr.	0.389	0.660	1.141	90.34	3.880	1	1.286	854.4	0.758	23.48	0.556
H Fl.	0.303	0.513	0.887	70.24	3.017	0.777	1	664.2	0.589	18.26	0.432
Lira	0.456	0.773	1.335	105.7	4.542	1.170	1.505	1000.	0.887	27.48	0.651
C $	0.514	0.871	1.505	119.2	5.118	1.319	1.696	1127	1	30.97	0.733
B Fr.	1.658	2.813	4.859	384.7	16.53	4.259	5.478	3638	3.229	100.	2.368
ECU	0.700	1.188	2.052	162.5	6.978	1.798	2.313	1536	1.363	42.23	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Aug 9	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11¼ - 11	11¼ - 10⅞	11⅛ - 10⅞	11 - 10⅞	10⅞ - 10¾	10⅞ - 10⅝
US Dollar	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	6¼ - 6
Can. Dollar	8⅞ - 8⅝	8⅞ - 8⅝	8⅞ - 8⅝	8⅞ - 8⅝	8⅞ - 8⅝	8⅞ - 8⅝
Dutch Guilder	9¼ - 9	9¼ - 8⅞	9¼ - 8⅞	9⅜ - 9¼	9⅜ - 9¼	9½ - 9⅜
Swiss Franc	7½ - 7	7⅝ - 7⅜	7⅞ - 7⅝	7⅞ - 7⅝	7⅞ - 7⅝	7⅞ - 7⅝
D-Mark	9 - 8⅞	9 - 8⅞	9⅛ - 9	9⅜ - 9¼	9⅜ - 9¼	9½ - 9⅜
French Franc	9¼ - 9	9⅜ - 9⅛	9⅜ - 9¼	9⅝ - 9½	9⅝ - 9½	9⅞ - 9¾
Italian Lira	12 - 10	11½ - 10¾	11½ - 11¼	11⅝ - 11½	12 - 11⅝	12¼ - 11⅞
Belgian Franc	8⅞ - 8⅞	9 - 8⅞	9¼ - 9	9⅜ - 9¼	9⅜ - 9¼	9⅝ - 9½

FINANCIAL TIMES STOCK INDICES

	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 2	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.68	85.68	85.65	85.43	85.65	85.33	85.88	82.17	127.4	49.18
Fixed Interest	94.48	94.48	94.49	94.45	94.01	93.89	94.84	90.59	105.4	50.53
Ordinary	2005.5	2024.0	2014.9	1989.0	1999.4	2014.6	2024.0	1606.3	2024.0	49.4
Gold Mines	179.3	178.2	176.7	176.6	177.1	180.7	222.8	127.0	734.7	43.5
FT-Act All Share	1229.72	1241.56	1239.67	1229.31	1235.08	1241.97	1241.97	967.46	1241.97	61.92
FT-SE 100	2570.6	2600.6	2597.4	2573.3	2585.4	2601.7	2601.7	2054.8	2601.7	986.9
FT-SE Eurotrack 100	1110.85	1111.44	1113.11	1105.49	1110.63	1116.44	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1169.48	1174.09	1174.76	1166.29	1174.63	1178.49	1192.11	938.62	1192.11	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

FOREIGN BONDS & RAILS

Continued on next page

MONEY MARKET FUNDS

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

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● Latest Share Prices are available on FT Cityline, call 0836 43 + four digit code. Calls charged at 34p/minute cheap rate and 45p/minute at all other times. To obtain a free Share Code Booklet call 071-925-2128.

AMERICANS

For Varity see Americans

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd

INSURANCES

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TOBACCOS

TRANSPORT

TRANSPORT – Contd

INVESTMENT TRUSTS

INVESTMENT TRUSTS – Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‖ Price at time of suspension
- ♣ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 ... β	640	......
Finlay Pkg. 5p ... β	20	......
Holt (Jos) 25p ... β	1978	......
Helton Hldgs. ... γ	40	14.3
IRG	198	......
United Drug	172	0.6

IRISH

Cap. 8½% Ln. 2010	£93¾	1.8
9pc Cap Ln. 1996	£97¾	0.6
Fin. 13% 97/02	£114	1.1
Arnotts	171	-0.6

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit. Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	28
Gen Accident	46
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen	36
Lex Service	20
Lloyds Bank	38
Lucas Inds	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk	27
P & O Dfd	51
Racal Elect	18
RHM	28
Rank Org Ord	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	40

Property

Brit Land	38
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Abtrust Preferred Income Trust (Section: Trusts)
Do. Zero Div Prf. (Trusts)
Greencore (Foods)
Manchester United (Leisure)
Deletions: Empire Stores (Stores)
Fobel International (Industrials)
Racal Electronics 7pc Cnv. Ln. 2009/14 (Electricals)

4:00 pm prices August 9

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp x	0.48	0.03	17	185	16⅝	16⅛	16⅛	
18¼	14½	A L Labs A	0.16	0.01	19	9	17⅜	17⅜	17⅜	-⅛
55¼	40⅞	AMP Inc x	1.44	0.03	19	1869	51½	50½	50½	-1¼
68⅝	44¼	AMR				122887	62¾	62⅜	62⅝	
2⅝	1¼	ARX			7	16	1½	1⅜	1½	+⅛
56	41½	ASA	3.90	0.07	14	100	50⅝	50⅜	50½	+⅛
55¼	39¼	Abbott Lab	1.00	0.02	22	5553	54¼	53⅝	53⅞	-⅛
14½	9⅞	Abitibi Pr	0.50	0.04	26	5	14⅛	14⅛	14⅛	
11⅜	10⅛	ACM Gvt In	1.26	0.11		628	11⅛	11	11⅛	+⅛
9¾	8¾	ACM GvOpp	1.01	0.11		46	9⅜	9¼	9¼	
9¼	8¼	ACM Gvt Sp x	1.01	0.11		188	9⅛	9	9	-⅛
11	9⅞	ACM Gvt Se x	1.26	0.12		596	10½	10⅜	10½	
8½	7⅝	ACM Man	1.01	0.12		472	8⅜	8¼	8¼	-⅛
12⅞	11½	ACM Managd	1.36	0.11		135	12⅜	12¼	12⅜	
7½	4¼	Acme Cleve x	0.40	0.06	18	100	6⅞	6⅝	6¾	
6	3½	Acme Elect			38	4	3⅞	3¾	3⅞	+⅛
40	22⅞	Acuson			22	756	33⅞	32⅞	33	-⅜
18¾	14¼	Adams Expr	0.48	0.02	0	77	18⅝	18⅜	18⅝	+⅛
20⅛	17½	Adobe12Pf	2.40	0.14		58	17¾	d17½	17½	-¼
9¼	6¼	Adobe Res			20	32	7	6⅞	6⅞	-¼
38⅜	18	Ad Micro				9	34⅞	34⅞	34⅞	+⅛
14¼	4⅝	Ad Micro P	3.00	0.27		181778	11⅜	11	11	-½
5⅛	2¼	Advest Grp	0.16	0.04	6	34	4	3⅞	4	
49⅛	33⅞	Aetna Lf	2.76	0.08	7	1634	36½	36⅛	36⅛	-⅛
10⅝	6⅝	Affil A x	0.24	0.03	46	652	8½	8⅜	8⅜	-⅛
20¼	12	Ahmanson x	0.88	0.05	11	393	18⅝	18¼	18⅜	-¼
12¾	2⅞	Aileen Inc			14	68	11	10⅝	10⅞	-⅛
74⅛	51⅜	Air Pr Chm	1.56	0.02	14	1856	67⅜	66⅜	66⅜	-⅜
30	16⅝	Airbne Fri	0.30	0.01	18	645	28⅝	28½	28¼	-¼
18⅞	12½	Airgas Inc			87	49	16¼	15¾	15¾	-¼
15¼	10	Airlease	2.06	0.17	6	38	12	11¾	11⅞	-⅛
94	88¼	AlaPw8 16				z100	93½	93½	90	-2
25⅛	21⅜	AlaPw PfA	2.00	0.08		11	u26⅛	25⅛	25⅛	

هكذا من الأصل

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
80¼	35¼	Xerox	3.00	0.05	9	731	55⅝	55¼	55¼	-⅛
51	43¼	Xerox4.125				z100	50¾	50¾	50¾	
21⅝	14⅛	Xtra 1.94 x				80	u21⅝	21	21⅛	+⅛
24⅞	14¼	Xtra Corp	0.72	0.03	77	63	23⅝	23¼	23¼	-⅜
24¼	21⅜	Yankee Egy	1.80	0.07	11	71	23⅜	23⅜	23⅜	
1½	⅛	Zapata			0	436	⅞	1⅜	⅞	
9⅜	6⅛	ZenithElec			2	150	6½	6⅜	6⅜	-⅛
18½	12	Zenith Nat	1.00	0.06	101	387	17¼	17⅛	17¼	
8¼	4½	Zenix Inc	0.84	0.14		16	6	5⅞	5⅞	
15⅛	10⅞	Zero Corp x	0.40	0.03	16	88	14	13¾	13¾	-¼
41⅝	29½	Zurn Ind	0.88	0.02	15	274	38½	38¼	38⅜	+⅛
13½	10¼	Zweig Fund	1.12	0.09		200	12⅝	12½	12⅝	-⅛
10	8½	Zweig Totl x	0.96	0.10		394	u10	9⅞	10	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices August 9

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Oriel Corp	0.14	15	138	9¼	9¼	9¼	
Pall Corp	0.44	27	705	36⅞	36¼	36⅛	-⅛
Pegasus G		6	485	12½	12⅜	12½	
Perini		7	12	11¼	11	11	-⅛
Pet H&P	0.31	12	z100	10	10	10⅛	+⅛
Phil LD	0.17	8	29	20	19¾	19¾	-⅛

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

NASDAQ NATIONAL MARKET

4:00 pm prices August 9

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		36	1136	28½	28	28½	+½
XL Data		36	2033	12¼	12	12⅛	
Xoma Corp		10	8650	19¼	18	18¾	+½
Yellow Fr x	0.94	16	843	30½	30	30⅜	+⅛
York Rsch		6	1287	6⅞	6⅜	6½	-⅜
ZionsUtah	1.44	9	100	47	46	47	+1

MONDAY INTERVIEW

Prince of development programmes

The Aga Khan speaks to **William Dawkins** and **Edward Mortimer**

'Good government is central to development'

Most people know at least some of what the Aga Khan does for a living, even if they think – wrongly – that he spends his whole time horse racing. But what makes him tick?

Straddling the worlds of ancient Islam and modern business, the Harvard-educated Imam is a rare example of a Moslem religious leader who appears to reconcile these clashing worlds, undeterred by the rise of Islamic fundamentalism and the upheavals created by the Gulf crisis.

His basic job description is to cater for the spiritual and material well-being of 12m to 15m Ismaili Moslems, a task which falls to him as blood descendant of the Prophet Mohammed, 49th in a succession stretching back to the Prophet's daughter. His is a minority, generally moderate sect, of often entrepreneurial but sometimes poverty-stricken people scattered across 25 countries, mainly in Asia, Africa and Middle East.

Today, the spotlight is on the Imam's development aid work, rewarded recently with a £4.7m grant from the Britain's Overseas Development Administration, one of the largest it has ever given to a non-governmental organisation. This was followed a few weeks later with Ecu8m from the European Community, which, like the ODA money, was for rural development projects in Chitral, northern Pakistan.

The grants partly recognise the extent to which the Aga Khan network's projects extend beyond his own flock. "We bend over backwards not to be seen just as an Ismaili benefit society," says one of his aid staff. But they also mark recognition of the effectiveness of the Aga Khan's general aid strategy. His rule is that receivers of aid must make some financial contribution and have an ownership stake in the projects concerned.

So it is that the Aga Khan is in a reasonably optimistic mood, as he chats amiably over coffee at his headquarters in wooded park near Chantilly, the capital of equestrian France and home to some of his race horses.

He is pleased to see some developing countries gradually abandoning their old political dogma, which reflected the former rift between the communist and non-communist world and had paralysed the aid business for decades. "It is genuinely exciting to see things beginning to happen. New ideas are not being thrown out because they don't fit a pre-established external philosophy. We are bottoming out of 30 to 40 years of horrible blockage which had a terrible impact on the Third World," he says.

To take one example, the Aga Khan professes to be deeply cheered by Ugandan President Yoweri Museveni's decision to hand back Ismaili property confiscated in the 1970s by Idi Amin. As a result, the Aga Khan plans to restart development work in Uganda to try to entice back Ismailis thrown out by the old regime.

He does see one serious problem for his aid business in coming years; shortage of cash. As the schools and hospitals he funds grow in size and number, so do their operating costs. One solution, he argues, would be to offer tax incentives for businesses in the Third World to invest in charitable endowment funds, rather than hiding their spare cash.

Extraordinary though it is for a spiritual leader to advocate harnessing the black economy, a great deal is at stake. "What percentage of the national economies of the Third World are below the table?" he asks. "It would be completely wrong to say that these captains of entrepreneurship have no social conscience. Rather than keeping it outside the balance sheet, they would be willing to put it back on to the balance sheet if they could use it in accordance with something desirable.

"Unless this sort of thinking is more prominent in the developing world than it is there will be a continuing falling away in the provision of health care and education," he warns.

He denies that he has over-reached himself in the aid business, but admits freely that his public operations have only partly reached their target of becoming self-sustaining, or achieving the right balance between cash-earning economic development projects and cash-using aid programmes. "Frankly, up till now, it has not worked," mainly for reasons outside the organisation's control, such as the instability of the countries in which the network is active.

The Aga Khan has spent most of his professional life trying to weave a rational and businesslike pattern into the patchwork of aid and economic projects inherited from his grandfather, the previous Imam. The result is a network with three main strands in the Third World, employing nearly 14,000 people, excluding the more than 6,600 who work for the Aga Khan privately.

There is an economic development arm, which is run like a venture-capital fund with assets of $400m and demands a profit from the businesses it backs, ranging from the installation of digital telephone exchanges in Pakistan in partnership with Alcatel of France, to tanning goatskins in Bangladesh and selling insurance and running hotels in Kenya. It aims to provide longer-term backing than purely commercial equity finance, able to help businesses survive the sharp economic swings typical of developing countries.

These profits contribute to the social development arm,

PERSONAL FILE

1936 Born in Geneva as Prince Karim. Educated at the Collège du Rosey, Switzerland, and Harvard University

1957 Becomes Aga Khan, Imam of the Ismaili Moslems, on the death of his grandfather, Sultan Mahomed Shah Aga Khan III

1967 Establishes the Aga Khan Foundation

1983 Founds Aga Khan University, Pakistan.

1984 Establishes Aga Khan Fund for Economic Development.

1990 Named Commander of French Légion d'Honneur for 'eminent services to humanity'.

which spends $150m annually from this and other sources on health, education, housing and agricultural development. Finally, there is the Geneva-based trust for culture, offering awards for Islamic architecture and sponsoring a range of activities to improve understanding of Islamic civilisation.

Most people think of the other side of the Aga Khan's life, his private businesses, as quite separate from the rest. But the two are increasingly working together and exchanging staff, he says. They include hotels in Sardinia and Italy, airlines in southern Europe and a newspaper in Kenya, with a combined annual turnover of $808m. On top of this comes one of Europe's leading thoroughbred racing and breeding businesses, inherited from his father and grandfather. The horses generate more controversy than any of the rest, but the Aga Khan maintains that they take up a minute amount of his time.

The Aga Khan sees the Ismaili community as more like a state than a non-governmental organisation, "in terms of the number of people that it affects, the size, nature and multiplicity of its activities", though it has not even a Vatican-size sovereign territory. As a quasi-head of state he admits to having an aid policy, "on a country-by-country basis", and he shares the current enthusiasm of other aid donors for "good government".

"It's absolutely essential," he says. "I cannot think of anything more central to development than good government. I don't think you can through external forces impose good government. Good government comes from within, not from outside – and I would tend to say 'good governance' rather than 'good government'." By "governance" he means the competence with which both public and private sector entities are run, "from higher education to the management of resources to intelligent and honest planning", with "clearly-stated objectives" and "answerability for the people who are responsible for running things".

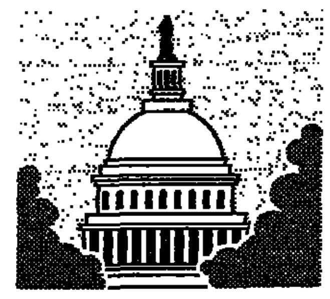
As for the upheavals created by the Gulf crisis and the rise of Islamic fundamentalism, the Aga Khan feels that his main role is to counsel his own people rather than preach to governments. Fundamentalism is "divisive of society and damaging to the Islamic world's ability to deal with the modern world," he mourns. But he is confident that Islamic radicalism, almost unknown among the Ismailis themselves, will die away. The Gulf crisis was "a historic period, but probably not a permanent one."

A professional in the development business, the Aga Khan applies exactly the same rigour to his bloodstock interests. He has always insisted that his 750 horses must be run as a self-financing business, and cited lack of professionalism in UK Jockey Club testing procedures as the reason for withdrawing all his horses from Britain last year, after the club disqualified one of his winners for failing a dope test. There is no immediate prospect of a return, though the Aga Khan says he is encouraged by the recent report of the House of Commons home affairs committee, and is waiting to see how the industry takes up its recommendations.

At the age of 54, the Aga Khan probably has longer to run than most of his horses. He alone has the right to choose a successor from among his male descendants, a choice which he is keeping to himself, in line with tradition.

The field is narrow. He has three children, Princess Zahra, born in 1970, Prince Rahim, a year younger, and Prince Hussain, born in 1974, who have been encouraged to follow their own interests. But already, they are being drawn into their father's complex world. The two eldest, studying at North American universities – Harvard and McGill – are learning Urdu and have shown strong interest in Islamic studies, without any parental pressure, their father insists.

No golden age for capitalism



MICHAEL PROWSE
on America

In his autobiography Surprised by Joy, CS Lewis, the religious writer who died in 1963, relates how one evening in 1929 he finally gave in and admitted that God was God. He became "perhaps the most dejected and reluctant convert in all England".

Having spent much the past decade finding flaws in free markets, I sometimes wonder whether I am ripe for a comparable economic conversion. Is it time to concede that free markets are the most glorious, enriching invention in human history? Eastern Europe, after all, has thrown off the shackles of communism and declared its belief in market forces. Much of the Third World is apparently undergoing almost as great a transformation, junking the socialist doctrines learned at the London School of Economics and other pre-war Fabian paradises.

My thoughts were turned in this dispiriting direction by an essay* by Mr David Hale, a well-connected economist at Kemper Financial Services in Chicago. Mr Hale argues that the global economy is entering a second great age of capitalist economic development. "The collapse of communism and the spread of liberal economic ideas to the Third World," he writes, "have created the preconditions for 2bn to 3bn people to rejoin the global market-place for goods and capital after periods of absence ranging from 30 to 75 years".

Mr Hale predicts that the "extraordinary era of human progress" shattered by the First World War is about to be resumed. By 2010 the forces of global economic integration will produce a world similar to that which would have emerged in the middle of the 20th century but for the events of 1914, which led to both the Bolshevik revolution of 1917 and the post-1945 division of Europe. To illustrate the glories of 19th-century liberalism, Mr Hale quotes a typically purple passage from John Maynard Keynes' 1919 treatise, The Economic Consequences of the Peace.

Keynes reflected that before the dislocation of war, an Englishman "sipping tea in bed" could purchase goods and make investments in any corner of the globe. He could, moreover, travel anywhere without passport or foreign exchange risk and rely, in all spheres of life, on minimum interference from government. Capitalism, in short, was rampant, riding roughshod over both nation state and officialdom.

Is Mr Hale right? Is the juggernaut of pre-1914 capitalism back on the road? If so, is this something to cheer about?

I must confess to doubts on both scores. A second golden era is by no means assured. The re-integration of the former command economies may prove much harder than expected. Few institutions have more faith in market forces than the World Bank but even it concedes that eastern Europe may take the best part of a decade to restore 1989 living standards, let alone close the gap with the prosperous west. The Soviet Union, which lacks even a distant memory of the market system, may take even longer to find its feet in a competitive world.

It is still an open question whether English economic liberalism holds the key to development in the Third World. South Korea – the greatest success story of the past few decades – has never relied on textbook free-market policies. And even if market reforms are successful, global capitalism may run into an environmental roadblock: who knows whether the world's delicate ecosystem can withstand the demands of an additional 2bn to 3bn greedy consumers?

The pre-1914 world Keynes recalled with such nostalgia was glorious – but only for a privileged few. The great majority worked long hours for low pay in horrible conditions. It was the critics of capitalism – not free-market gurus – who championed the social reforms that led to decent housing, health care, pensions and unemployment protection. US experience in the 1980s provides a salutary warning that intensified global competition could cause an unravelling of 20th-century welfare states. In America, the gap between the haves and have-nots has widened markedly and many workers are less economically secure than in previous decades.

Social strife is not the only risk. The 19th-century clash between capitalism and nationalism did eventually result in global warfare. This is not entirely surprising because competition is merely a controlled form of aggression. The control can slip. The stability resulting form the Cold War balance of power is over. A new race for global economic supremacy could have unfortunate military consequences.

It is also easy to exaggerate the success of late 19th-century capitalism. In the 16 wealthiest economies, real output per head grew at an annual rate of only 1.5 per cent between 1870 and 1913. World trade grew at 3.3 per cent a year. In the 20 years after 1950 – an era of big government, regulated capital markets and managed demand – growth of output per head averaged 3.8 per cent. And world trade grew at closer to 8 per cent a year.

Nobody disputes that markets are an efficient means for allocating resources. The debate is about the degree of regulation required. Arguably, the true golden era occurred after the Second World War when governments took control of economic events, not before 1913 when they relied blindly on markets. It is the 1945 spirit that needs rekindling. Put my economic conversion on hold.

* *Will the 1990s be the Second Great Age of Global Capitalism since the 19th Century?, 120 South LaSalle Street, Chicago, Illinois, 606603.*

The guns give way to peace

LETTER FROM

BEIRUT

The release last week of British hostage John McCarthy after more than five years in captivity, and the freeing yesterday of American Edward Tracy, held since 1986, marks another small step in the rehabilitation of Lebanon. But 11 westerners are still being held. United Nations involvement in the affair has led to hopes of an exchange of the remaining hostages and captured Israeli soldiers for Lebanese and Palestinians held by Israel.

Hostages aside, Lebanon has already done much to turn itself around.

Only two summers ago, Beirut was a ghost city, abandoned by its residents and forgotten by the world. The artillery bombardments continued in early 1990, as an internecine Christian war reduced the "little Monaco" of the Christian enclave to the same shell-scarred buildings that already characterised the Moslem quarters of the city.

Despite slow improvements, large sectors of Beirut remain devastated, the telephones barely function and electricity comes only six hours each day. But the Lebanese army now mans the check-points once controlled by the militias. Christians and Moslems move freely across the former demarcation line and the economy is being reborn.

No one knows why it took 16 years to reverse the apparently inexorable process of self-annihilation. Lebanon has little to show for 150,000 lost lives and $18bn in damage: a 50-50 ratio of Christians and Moslems in parliament – instead of six Christians to every five Moslems – and the elimination of the Palestinians as a political and military force in Lebanon.

One man – Mr Lakhdar Ibrahimi, now Algeria's foreign minister – did most to resurrect Lebanese political institutions. As a special envoy of the Arab League in 1989, Mr Ibrahimi achieved a lasting ceasefire between east and west Beirut and cajoled a reluctant quorum of parliamentary deputies into negotiating a peace treaty in the Saudi city of Taif. The Taif accords led to the formation of a pro-Syrian government and, for the past nine months, peace in Lebanon.

Lebanon's peace is a reflection of the changed regional balance of power. Iraq can no longer send weapons to anti-Syrian Christians. Deprived of Soviet military and financial assistance, Syria also ceased arming its Lebanese proxies. Through its participation in the Gulf war coalition, Syria obtained tacit US approval for the violent removal in October 1990 of the rebel Christian General Michel Aoun from his bunker at Baabda. In 1989-90, Aoun declared war on, first, the Syrians in Lebanon and then the Christian Phalange militia. Beirutis no longer talk of the "pax Syriana" but of the "pax Americana". The security of "greater Beirut" now seems assured, but two foreign powers – Israel and Iran – retain the ability to destabilise outlying regions.

If Lebanon's peace is to be more than a hiatus created by external conditions, the Beirut government must strengthen the political institutions which failed the country so tragically during the war. The successful deployment of Lebanese army brigades – no longer organised along sectarian lines – in Sidon and Tyre this summer is the most promising indication of a new decisiveness. "During the war we could do nothing," a high-ranking Lebanese army officer said. "Our politicians wouldn't lead us. Now there is political will behind us."

Theatre audiences now stand when the Lebanese national anthem is played – a rarity during the war. Paper red, white and green Lebanese flags can be seen in shops and car windows around Beirut. But this nascent nationalism is threatened by a continuing lack of basic state services, the perception that the government is corrupt and impatience for parliamentary elections – last held in 1972.

The Maronite Christians of the Metn and Kesrouan regions remain particularly disaffected. In Gen Aoun's former stronghold of Baabda, residents secretly circulate photographs of the general and splash the walls with graffiti saying "Aoun will return". Despite its deep resentment of the Syrian presence in Lebanon, the Phalange party sees advantages in peace. "With Taif we have accomplished things we never achieved through 15 years of armed struggle," a Phalangist official admitted grudgingly, referring to the disarming of the Palestinians and the scheduled redeployment of the Syrians to eastern Lebanon in September 1992.

The restoration of Lebanon's sovereignty depends on outside powers. The US, Britain and France have all praised the Lebanese army's subjugation of Palestinian guerrillas in southern Lebanon, but the US has been unwilling to put pressure on Israel to give up the 440 sq miles it occupies. The Phalangists sold their weapons abroad, the Druze and Shia Moslem Amal militias returned theirs to Syria. But the failure of President Elias Hrawi's government's to disarm the Iranian-backed Hizbollah remains a glaring gap in its assertion of state authority. The "Islamic resistance" – Hizbollah's military wing – continues to attack the 1,200 Israelis and the 3,300-strong Israeli-backed 'South Lebanon Army' in southern Lebanon.

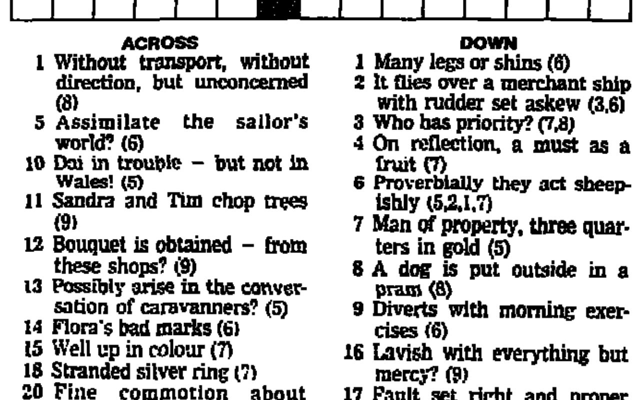
Beirut appears likely to enjoy a period of peace, but the source of tension has shifted southward. In a futile gesture of defiance, Lebanese soldiers now fire their guns at the Israeli F-16s which fly daily over their positions. The government wants the Israeli occupation of the south dealt with quickly, independently of the Arab-Israeli question. But with 300,000 Palestinians still in Lebanon and the risk of a Syrian-Israeli war on their territory, real peace for the Lebanese may ultimately depend on the US-sponsored Middle East peace process.

Lara Marlowe

JOTTER PAD

CROSSWORD

No.7,618 Set by DANTE



ACROSS

1 Without transport, without direction, but unconcerned (8)
5 Assimilate the sailor's world? (6)
10 Doi in trouble – but not in Wales! (5)
11 Sandra and Tim chop trees (9)
12 Bouquet is obtained – from these shops? (9)
13 Possibly arise in the conversation of caravanners? (5)
14 Flora's bad marks (6)
15 Well up in colour (7)
18 Stranded silver ring (7)
20 Fine commotion about American way to make tea (6)
22 Port one gets in casks (5)
24 Unfortunate craftsmen left to fend for themselves (9)
25 It's not true that that oil, in fact, needs changing (9)
26 Uplift one gets in a crowd (5)
27 What is wrong in a record being beaten? (6)
28 Plan to arouse one's curiosity (8)

DOWN

1 Many legs or shins (6)
2 It flies over a merchant ship with rudder set askew (3,6)
3 Who has priority? (7,8)
4 On reflection, a must as a fruit (7)
6 Proverbially they act sheepishly (5,2,1,7)
7 Man of property, three quarters in gold (5)
8 A dog is put outside in a pram (8)
9 Diverts with morning exercises (6)
16 Lavish with everything but mercy? (9)
17 Fault set right and proper (8)
19 Taking a chance, cutting up vegetables (6)
20 Specifically used by diabetics (7)
21 Repeatedly set about a fly (6)
23 Scores from a snick (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 24.